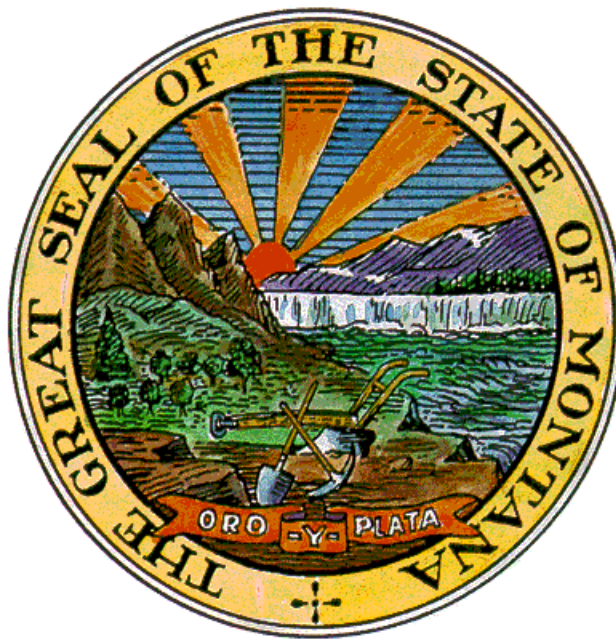


Montana

Comprehensive Annual Financial Report



June 30, 1996

MONTANA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
for the fiscal year ended June 30, 1996

Prepared By:

Department of Administration

Lois Menzies, Director

Accounting and Management Support Division

Connie L. Griffith, CPA, Administrator

Accounting Bureau

Terry L. Atwood, CPA, Bureau Chief

Accounting Principles/Financial Reporting Section

John R. Smith, CPA

Staci Litschauer, CPA, CGFM

D. J. Kimball, CPA, CGFM

Operations Section

Linda Gaughan

Mark Curtis

John E. Barbagello II

Penny C. Killham

STATE OF MONTANA
SELECTED STATE OFFICIALS

EXECUTIVE

Marc Racicot

Governor

Dennis Rehberg

Lieutenant Governor

JUDICIAL

J. A. Turnage

Chief Justice

LEGISLATIVE

Bob Brown

President of the Senate

John Mercer

Speaker of the House

**STATE OF MONTANA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1996**



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**STATE OF MONTANA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1996**

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Montana

General Purpose Financial Statements

The following financial statements present the financial position of all fund types and account groups and the operating results of all fund types.





MONTANA LEGISLATIVE BRANCH

Legislative Auditor
Scott A. Seacat

Legal Counsel:
John Northey



Deputy Legislative Auditors:
Mary Bryson
Operations and EDP Audit
James Gillett
Financial-Compliance Audit
Jim Pellegrini
Performance Audit

LEGISLATIVE AUDIT DIVISION

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying general purpose financial statements of the state of Montana as of and for the year ended June 30, 1996, as listed in the table of contents. These general purpose financial statements are the responsibility of the state of Montana's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which statements reflect total assets of 6 percent, liabilities of 8 percent, and net operating revenues and expenditures/transfers-out of 30 and 31 percent, respectively, in the Enterprise Fund. We did not audit the financial activity of the Office of Public Instruction, which activity reflects total expenditures/transfers-out of 53 percent in the General Fund, total revenues/transfers-in and expenditures of 5 and 6 percent, respectively, and residual equity transfers of 60 percent in the Special Revenue Fund, transfers-in of 21 percent in the Internal Service Fund, and other immaterial amounts in the General, Special Revenue and Internal Service Funds. This financial activity was audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montana State Lottery and the Office of Public Instruction, is based solely upon the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the state of Montana as of June 30, 1996, and the results of its operations, the cash flows of its proprietary and nonexpendable trust fund types and discretely presented component units, the changes in plan net assets of its pension trust funds and discretely presented component unit, and the changes in fund balance and

Room 135, State Capitol Building, PO Box 201705 Helena, MT 59620-1705
Phone (406) 444-3122 FAX (406) 444-9784

current funds revenues, expenditures, transfers and other changes of the component unit higher education funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we will issue reports dated October 25, 1996 on our consideration of the state of Montana's internal control structure and on its compliance with laws and regulations. Those reports will be included in the state's Single Audit Report.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining, individual fund and account group statements/schedules-primary government listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the state of Montana. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based upon our audit and the reports of other auditors, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

The introductory and statistical sections listed in the table of contents were not audited by us and, accordingly, we express no opinion on them.

Respectfully submitted,

(Signature on File)

James H. Gillett, CPA
Deputy Legislative Auditor

October 25, 1996

STATE OF MONTANA
Combined Balance Sheet
All Fund Types, Account Groups and Discretely Presented Component Units
June 30, 1996
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE
ASSETS/OTHER DEBITS						
Assets:						
Cash/Cash Equivalents (Note 4)	\$ 146,320	\$ 227,293	\$ 31,468	\$ 19,151	\$ 18,991	\$ 23,885
Receivables (Net of Uncollectibles)	50,084	37,153	3,299	1,075	19,952	823
Interfund Loans Receivable (Note 13)	18,978	33,710	-	-	-	-
Due from Other Governments	16,214	116,037	-	-	-	13
Due from Primary Government (Note 13)	-	-	-	-	-	-
Due from Component Units (Note 13)	404	572	5	-	128	865
Due from Other Funds (Note 13)	49,787	11,881	86	302	281	4,067
Inventories	2,039	47,773	-	-	4,458	966
Equity in Pooled Investments (Note 4)	-	-	-	-	-	-
Long-Term Loans/Notes Receivable	-	29,658	34,967	-	27,524	1,272
Advances to Other Funds (Note 13)	2,530	223	-	-	-	-
Investments (Note 4)	-	15,517	1,576	-	13,769	34,181
Land	-	-	-	-	800	338
Buildings/Improvements	-	-	-	-	5,430	9
Equipment	-	-	-	-	4,127	127,147
Other Fixed Assets	-	-	-	-	1,394	3
Construction in Progress	-	-	-	-	-	353
Accumulated Depreciation	-	-	-	-	(5,998)	(70,994)
Intangible Assets	-	-	-	-	70	30
Deferred Charges	-	-	-	-	1,007	-
Other Assets	4,290	1,297	-	5	6,202	278
Other Debits:						
Amount Available - Debt Service Funds	-	-	-	-	-	-
Resources to be Provided in Future Years	-	-	-	-	-	-
TOTAL ASSETS/OTHER DEBITS	\$ 290,646	\$ 521,114	\$ 71,401	\$ 20,533	\$ 98,135	\$ 123,236
LIABILITIES/EQUITY/OTHER CREDITS						
Liabilities:						
Accounts Payable	\$ 83,629	\$ 109,642	\$ 3,831	\$ 2,430	\$ 6,148	\$ 3,292
Lottery Prizes Payable	-	-	-	-	2,861	-
Interfund Loans Payable (Note 13)	-	46,419	-	5,100	-	100
Advances from Other Funds (Note 13)	-	2,778	-	-	35	-
Due to Other Governments	30,139	4,277	-	-	6	-
Due to Primary Government (Note 13)	-	-	-	-	-	-
Due to Component Units (Note 13)	425	1,061	25	-	12	20
Due to Other Funds (Note 13)	13,847	32,791	2,051	5,338	9,294	1,920
Deferred Revenue	18,783	41,744	852	-	3,302	163
Lease/Installment Purchase Payable (Note 11)	-	-	-	-	10	2,335
Bonds/Notes Payable (Net) (Note 12)	101,200	-	-	-	40,593	-
Property Held in Trust	985	1,459	-	-	4,536	149
Compensated Absences Payable (Note 1)	-	-	-	-	635	2,650
Net Pension Obligation Payable (Note 12)	-	-	-	-	-	-
Estimated Insurance Claims (Note 9)	-	-	-	-	1,640	25,039
Arbitrage Rebate Tax Payable	-	-	-	-	261	-
Other Liabilities	1	9	-	-	-	-
Total Liabilities	249,009	240,180	6,759	12,868	69,333	35,668
Equity/Other Credits:						
Investment in General Fixed/Plant Assets	-	-	-	-	-	-
Contributed Capital (Note 17)	-	-	-	-	4,592	6,578
Retained Earnings:						
Reserved for Debt Service	-	-	-	-	-	-
Unreserved	-	-	-	-	24,210	80,990
Fund Balances:						
Reserved for Encumbrances	6,923	43,229	-	4	-	-
Reserved for Inventories	2,039	24,224	-	-	-	-
Reserved for Advances to Other Funds (Note 13)	2,530	223	-	-	-	-
Reserved for Long-Term Loans	-	28,470	34,967	-	-	-
Reserved for Debt Service	-	-	29,675	-	-	-
Reserved for Trusts/Endowments (Note 15)	-	14,224	-	-	-	-
Reserved for Construction	-	-	-	-	-	-
Reserved for Retirement Systems	-	-	-	-	-	-
Unreserved, undesignated	30,145	170,564	-	7,661	-	-
Total Equity/Other Credits	41,637	280,934	64,642	7,665	28,802	87,568
TOTAL LIABILITIES/EQUITY/OTHER CREDITS	\$ 290,646	\$ 521,114	\$ 71,401	\$ 20,533	\$ 98,135	\$ 123,236

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUND TYPES		ACCOUNT GROUPS		COMPONENT UNITS			
TRUST AND AGENCY		GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	PROPRIETARY FUND TYPES	PENSION TRUST FUND	HIGHER EDUCATION FUNDS	
\$	-	\$	-	\$	49,966	\$ 47,155	\$ 113,059
-	-	-	-	27,644	14,800	-	38,372
-	-	-	-	-	-	-	2,765
-	-	-	-	-	-	-	3,967
-	-	-	-	324	14	-	1,892
-	-	-	-	-	-	-	-
-	-	-	-	1,807	522	-	16,393
-	-	-	-	58	-	-	4,103
-	-	-	-	-	1,304,496	-	2,430
-	-	-	-	355,365	-	-	51
-	-	-	-	-	-	-	487
-	-	-	-	652,938	96,186	-	3,697
-	59,073	-	-	-	35	-	13,293
-	293,362	-	-	-	158	-	303,733
-	105,995	-	-	3,804	208	-	127,276
-	44,438	-	-	-	-	-	74,149
-	7,783	-	-	-	-	-	80,871
-	-	-	-	(1,736)	(214)	-	-
-	-	-	-	3,271	97	-	2,247
-	-	-	-	8,313	-	-	1,790
-	-	-	-	836	-	-	4,113
-	-	-	29,675	-	-	-	-
-	-	-	263,127	-	-	-	-
\$	-	\$ 510,651	\$ 292,802	\$ 1,102,590	\$ 1,463,457	\$	794,688

\$	-	\$ -	-	\$ 5,713	\$ 292	\$ 25,183
-	-	-	-	-	-	-
-	-	-	-	-	-	2,765
-	-	-	-	-	-	487
-	-	-	-	-	3	536
-	-	-	-	962	27	2,357
-	-	-	-	-	-	-
-	-	-	-	1,755	10	15,064
-	-	-	-	17,902	-	11,232
-	-	2,077	-	-	31	1,802
-	-	244,017	-	569,036	-	142,126
-	-	-	-	1,028	7	4,656
-	-	43,942	-	706	36	26,390
-	-	2,738	-	-	-	-
-	-	-	-	543,280	-	-
-	-	-	28	178	-	-
-	-	-	-	-	-	-
-	-	-	292,802	1,140,560	406	232,598

-	510,651	-	-	-	-	474,437
-	-	-	-	11,599	-	-
-	-	-	-	98,756	-	-
-	-	-	-	(148,325)	-	-
-	-	-	-	-	-	1,339
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	29,793
-	-	-	-	-	-	13,622
-	-	-	-	-	1,463,051	-
-	-	-	-	-	-	42,899
-	510,651	-	(37,970)	1,463,051	-	562,090
\$	-	\$ 510,651	\$ 292,802	\$ 1,102,590	\$ 1,463,457	\$ 794,688

STATE OF MONTANA
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Funds
For the Fiscal Year Ended June 30, 1996
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST
REVENUES:					
Licenses/Permits	\$ 31,471	\$ 78,572	\$ -	-	\$ 1,768
Taxes:					
Natural Resource	24,496	7,133	334	4,352	29,103
Individual Income	348,517	8	33,607	-	-
Corporate Income	59,360	-	6,724	-	9,677
Property	203,920	6,823	-	-	-
Fuel	-	176,048	-	-	-
Payroll	-	541	-	-	-
Other (Note 1)	62,953	50,246	10,531	2,281	23,079
Charges for Services/Fines/Forfeits	25,184	39,385	1,337	461	182
Investment Earnings	16,295	6,835	4,823	641	8,960
Sale of Documents/Mdse./Property	229	4,700	1,847	-	-
Rentals/Leases/Royalties	113	107	-	-	14
Contributions/Premiums	-	4,165	-	-	58,561
Grants/Contracts/Donations	2	9,230	-	-	1,342
Federal	25,200	854,873	227	-	5,238
Federal Indirect Cost Recoveries	85	1,600	-	-	-
Other Revenues	508	1,044	-	-	-
Total Revenues	798,333	1,241,310	59,430	7,735	137,924
Intrafund Revenues	(385)	(2,507)	(162)	-	-
Net Revenues	797,948	1,238,803	59,268	7,735	137,924
EXPENDITURES:					
Current:					
General Government	65,855	5,793	-	51	45,497
Public Safety/Corrections	73,471	45,750	-	-	23,128
Transportation	265	321,877	-	-	-
Health/Social Services	214,052	556,454	-	-	2
Education/Cultural	476,345	75,259	-	-	150
Resource Development/Recreation	14,085	55,138	-	41	-
Economic Development/Assistance	3,246	103,546	-	-	65,830
Debt Service:					
Principal Retirement	606	838	41,477	-	20
Interest/Fiscal Charges	3,201	1,294	13,544	-	2
Capital Outlay	6,394	26,565	12	24,049	4
Total Expenditures	857,520	1,192,514	55,033	24,141	134,633
Intrafund Expenditures	(385)	(2,507)	(162)	-	-
Net Expenditures	857,135	1,190,007	54,871	24,141	134,633
Excess of Rev. Over (Under) Expend.	(59,187)	48,796	4,397	(16,406)	3,291
OTHER FINANCING SOURCES (USES):					
Loan Proceeds	-	1,625	-	-	-
Bond Proceeds	505	9,360	-	-	-
Proceeds of Refunding Bonds	-	13,760	-	-	-
Inception of Lease/Installment Contract	1,128	800	-	-	-
General Fixed Asset Sale Proceeds	117	29	-	-	-
Operating Transfers In (Note 13)	159,562	21,389	38,689	795	63
Transfers from Component Units (Note 13)	-	-	-	-	-
Operating Transfers Out (Note 13)	(7,712)	(36,348)	(53,973)	(1,269)	(1,179)
Transfers to Component Units (Note 13)	(95,880)	(15,092)	-	-	-
Total Other Financing Sources (Uses)	57,720	(4,477)	(15,284)	(474)	(1,116)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses	(1,467)	44,319	(10,887)	(16,880)	2,175
FUND BALANCES - JULY 1 - as Previously Reported	35,436	247,997	72,068	29,745	115,619
Prior Period Adjustments (Note 3)	124	(948)	1,163	-	(1,273)
FUND BALANCES - July 1 - As Restated	35,560	247,049	73,231	29,745	114,346
Increase (Decrease) in Inventories	120	224	-	-	-
Residual Equity Transfers (Note 13)	7,424	(10,658)	2,298	(5,200)	4,714
FUND BALANCES - JUNE 30	\$ 41,637	\$ 280,934	\$ 64,642	\$ 7,665	\$ 121,235

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and
Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis - Unreserved Fund Balance
General and Special Revenue Fund Types
For the Fiscal Year Ended June 30, 1996
(Expressed in Thousands)

	GENERAL FUND			SPECIAL REVENUE FUNDS		
	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
REVENUES:						
Licenses/Permits	\$ 28,307	\$ 31,471	\$ 3,164	\$ 77,613	\$ 78,572	\$ 959
Taxes:						
Natural Resource	26,214	24,496	(1,718)	7,906	7,133	(773)
Individual Income	356,951	348,517	(8,434)	12	8	(4)
Corporate Income	62,477	59,360	(3,117)	-	-	-
Property	210,325	203,920	(6,405)	6,694	6,823	129
Fuel	-	-	-	170,130	176,048	5,918
Payroll	-	-	-	482	541	59
Other	57,282	62,953	5,671	49,720	50,246	526
Charges for Services/Fines/Forfeits	23,665	25,184	1,519	42,000	39,385	(2,615)
Investment Earnings	15,742	16,295	553	6,866	6,835	(31)
Sale of Documents/Merchandise/Property	208	229	21	4,393	4,700	307
Rentals/Leases/Royalties	74	113	39	149	107	(42)
Contributions/Premiums	-	-	-	3,990	4,165	175
Grants/Contracts/Donations	2	2	-	11,579	9,230	(2,349)
Federal	24,037	25,200	1,163	1,038,265	854,873	(183,392)
Federal Indirect Cost Recoveries	572	85	(487)	1,759	1,600	(159)
Other Revenues	71	508	437	1,073	1,044	(29)
Total Revenues	805,927	798,333	(7,594)	1,422,631	1,241,310	(181,321)
EXPENDITURES:						
Current:						
General Government	73,947	68,612	5,335	53,487	4,665	48,822
Public Safety/Corrections	75,070	73,588	1,482	71,605	45,899	25,706
Transportation	379	376	3	361,174	322,510	38,664
Health/Social Services	220,962	219,507	1,455	529,634	502,249	27,385
Education/Cultural	487,354	476,422	10,932	143,441	75,344	68,097
Resource Development/Recreation	14,402	14,135	267	121,318	53,454	67,864
Economic Development/Assistance	3,359	3,266	93	120,281	95,462	24,819
Debt Service:						
Principal Retirement	609	609	-	845	845	-
Interest/Fiscal Charges	3,201	3,201	-	809	809	-
Capital Outlay	4,806	4,806	-	27,751	27,751	-
Total Expenditures	884,089	864,522	19,567	1,430,345	1,128,988	301,357
Excess of Rev. Over (Under) Expend.	(78,162)	(66,189)	11,973	(7,714)	112,322	120,036
OTHER FINANCING SOURCES (USES):						
Loan Proceeds	-	-	-	13,360	1,625	(11,735)
Bond Proceeds	505	505	-	8,095	9,360	1,265
Proceeds of Refunding Bonds	-	-	-	13,760	13,760	-
General Fixed Asset Sale Proceeds	100	117	17	19	29	10
Operating Transfers In	151,607	159,385	7,778	59,049	21,583	(37,466)
Operating Transfers Out	(10,684)	(7,691)	2,993	(7,088)	(5,369)	1,719
Transfers to Component Units	(95,880)	(95,880)	-	(15,092)	(15,092)	-
Total Other Financings Sources (Uses)	45,648	56,436	10,788	72,103	25,896	(46,207)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (Budgetary Basis)	(32,514)	(9,753)	22,761	64,389	138,218	73,829
RECONCILIATION OF BUDGETARY/GAAP REPORTING:						
1. Adjust expenditures for encumbrances.	-	6,852	6,852	-	(1,665)	(1,665)
2. Adjustments for appropriated loans/ other nonbudgeted activity.	-	1,434	1,434	-	(92,234)	(92,234)
3. Intrafund elimination - Transfers In	-	(385)	(385)	-	(49,343)	(49,343)
4. Intrafund elimination - Transfers Out	-	385	385	-	49,343	49,343
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (GAAP Basis)	(32,514)	(1,467)	31,047	64,389	44,319	(20,070)
UNRESERVED FUND BALANCES - JULY 1	25,527	25,527	-	152,965	152,965	-
Residual Equity Transfers (Note 13)	7,424	7,424	-	(10,658)	(10,658)	-
Prior Period Adjustments (Note 3)	-	124	124	-	(948)	(948)
Decrease (Increase):						
Encumbrances Reserve	-	(118)	(118)	-	(6,135)	(6,135)
Advances to Other Funds Reserve	-	(1,345)	(1,345)	-	(13)	(13)
Long-Term Loans Reserve	-	-	-	-	(2,742)	(2,742)
Trusts/Endowments Reserve (Note 15)	-	-	-	-	(6,224)	(6,224)
UNRESERVED FUND BALANCES - JUNE 30	<u>\$ 437</u>	<u>\$ 30,145</u>	<u>\$ 29,708</u>	<u>\$ 206,696</u>	<u>\$ 170,564</u>	<u>\$ (36,132)</u>

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances
All Proprietary Fund Types, Similar Trust Funds and Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1996
(Expressed in Thousands)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
OPERATING REVENUES:				
Charges for Services	\$ 83,334	\$ 65,728	\$ 4,389	\$ 305
Investment Earnings	1,715	3,125	81,295	45,490
Financing Income	2,415	-	-	27,623
Contributions/Premiums	2,197	67,491	-	114,364
Grants/Contracts/Donations	7	25	-	-
Taxes	11,876	-	19,850	46,439
Rentals/Leases/Royalties	-	-	26,205	-
Other Operating Revenues	3,818	492	35	1,210
Total Operating Revenues	105,362	136,861	131,774	235,431
Intrafund Revenues	(5)	(101)	-	-
Net Operating Revenues	105,357	136,760	131,774	235,431
OPERATING EXPENSES:				
Personal Services	7,262	20,302	-	8,251
Contractual Services	6,019	9,506	-	4,894
Supplies/Materials	35,936	13,649	-	303
Benefits/Claims (Note 3)	3,822	59,357	-	(54,522)
Depreciation	694	8,543	-	496
Amortization	9	29	-	49
Utilities/Rent	600	4,751	-	212
Communications	1,316	10,091	-	567
Travel	161	301	-	192
Repair/Maintenance	419	4,263	-	200
Local Assistance	1,575	-	-	-
Lottery Prize Payments	15,913	-	-	-
Interest Expense	2,748	81	-	41,181
Arbitrage Rebate Tax	122	-	-	175
Other Operating Expenses	2,106	1,480	20	6,255
Total Operating Expenses	78,702	132,353	20	8,253
Intrafund Expenses	(5)	(101)	-	-
Net Operating Expenses	78,697	132,252	20	8,253
Operating Income (Loss)	26,660	4,508	131,754	227,178
NONOPERATING REVENUES (EXPENSES):				
Gain (Loss) Sale of Fixed Assets	(91)	(580)	-	1
Increase (Decrease) Value of Livestock	(388)	-	-	-
Federal Indirect Cost Recoveries	-	2,495	-	-
Total Nonoperating Revenues (Expenses)	(479)	1,915	-	1
Income (Loss) Before Operating Transfers	26,181	6,423	131,754	227,179
Operating Transfers In (Note 13)	70	1,664	1,109	-
Operating Transfers Out (Note 13)	(25,998)	-	(98,314)	-
Transfers to Component Units (Note 13)	-	-	(1,815)	-
Net Income Before Extraordinary Items	253	8,087	32,734	227,179
Loss on Debt Extinguishment (Note 12)	-	-	-	(1,709)
Net Income (loss)	253	8,087	32,734	225,470
RETAINED EARNINGS/FUND BALANCES - July 1				
As Previously Reported	24,920	73,322	1,016,948	(275,039)
Prior Period Adjustments (Note 3)	(961)	(142)	-	-
RETAINED EARNINGS/FUND BALANCES - July 1				
As Restated	23,959	73,180	1,016,948	(275,039)
Residual Equity Transfers (Note 13)	(2)	(277)	24	-
RETAINED EARNINGS/FUND BALANCES - JUNE 30	\$ 24,210	\$ 80,990	\$ 1,049,706	(49,569)

The notes to the financial statements are an integral part of this statement.



STATE OF MONTANA
Combined Statement of Cash Flows
All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1996
(Expressed in Thousands)

	PROPRIETARY FUND TYPES			COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Sales and Services	\$ 75,637	\$ 132,367	\$ 4,195	\$ 113,283
Collections of Principal and Interest on Loans	9,178	-	-	71,232
Cash Payments for Loans	(7,444)	-	-	(57,242)
Payments to Suppliers for Goods and Services	(39,036)	(44,300)	-	(8,434)
Payments to Employees	(7,701)	(20,038)	-	(8,552)
Grant Receipts	-	2,664	-	-
Grant Payments	-	-	(15)	-
Cash Payments for Claims	(3,879)	(63,537)	-	(93,752)
Cash Payments for Local Assistance	(1,464)	-	-	-
Collections of Notes Receivable	-	-	-	(36)
Collections of Payroll Taxes	-	-	-	43,258
Cash Payments for Prizes	(15,273)	-	-	-
Transfers from Other Funds	-	303	-	-
Scholarship/Fellowship Payments	-	-	(4)	-
Other Operating Revenues	2,785	113	35	1,180
Net Cash Provided by (Used for) Operating Activities	12,803	7,572	4,211	60,937
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Payment of Principal and Interest on Bonds and Notes	(9,677)	-	-	(150,901)
Proceeds from Issuance of Bonds and Notes	8,378	-	-	89,856
Payment of Bond Issuance Costs	(121)	-	-	(1,493)
Collection of Taxes	11,876	-	20,119	-
Transfers to Other Funds	(21,276)	-	(102,144)	(638)
Transfers to Component Units	-	-	(1,678)	-
Transfers from Other Funds	69	1,079	1,086	(114)
Transfers from Primary Government	-	-	-	27,426
Proceeds from Interfund Loans	200	190	37	-
Payment of Interfund Loans	(235)	(345)	97	-
Residual Equity Transfers to Other Funds	(2)	(200)	-	-
Residual Equity Transfers from Other Funds	-	-	24	-
Contributed Capital Transfers from Other Funds	-	1,691	-	-
Net Cash Provided by (Used for) Noncapital Financing Activities	(10,788)	2,415	(82,459)	(35,864)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of Fixed Assets	(1,452)	(9,985)	-	(2,188)
Proceeds from Sale of Fixed Assets	158	1,037	-	3
Principal and Interest Payments on Bonds and Notes	(29)	(1,182)	-	-
Net Cash Used for Capital and Related Financing Activities	(1,323)	(10,130)	-	(2,185)
CASH FLOW FROM INVESTING ACTIVITIES:				
Purchase of Investments	(10,087)	(25,809)	(83,457)	(1,017,942)
Proceeds from Sales or Maturities of Investments	9,167	16,616	54,734	948,428
Interest and Dividends on Investments	1,571	3,286	77,632	45,541
Arbitrage Rebate Tax	(231)	-	-	(206)
Collections of Principal on Loans	-	-	16,342	-
Cash Payments for Loans	-	-	(25,178)	-
Collection of Rents/Leases/Royalties	-	-	25,488	-
Net Cash Provided by (Used for) Investing Activities	420	(5,907)	65,561	(24,179)
Net Increase (Decrease) in Cash and Cash Equivalents	1,112	(6,050)	(12,687)	(1,291)
Cash and Cash Equivalents, July 1	17,879	29,935	64,544	51,257
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 18,991	\$ 23,885	\$ 51,857	\$ 49,966

The notes to the financial statements are an integral part of this statement.

	PROPRIETARY FUND TYPES			COMPONENT UNITS
	ENTERPRISE	INTERNAL SERVICE	NONEXPENDABLE TRUST	PROPRIETARY FUND TYPES
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ 26,660	\$ 4,508	131,754	\$ 227,178
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Depreciation	694	8,543	-	496
Amortization	9	29	-	49
Taxes	(11,876)	-	(19,850)	-
Interest Expense	2,748	81	-	41,181
Interest on Investments	(1,715)	(3,125)	(81,295)	(45,490)
Federal Indirect Cost Recoveries	-	2,495	-	-
Arbitrage Rebate Tax	122	-	-	175
Operating Transfers in	-	627	-	-
Rentals/Leases/Royalties	-	-	(26,205)	-
Change in Assets and Liabilities:				
Decr (Incr) in Accounts Receivable	(13,472)	(198)	-	2,860
Decr (Incr) in Due From Other Governments	-	(2)	-	-
Decr (Incr) in Due From Other Funds	(38)	340	(194)	343
Decr (Incr) in Due From Primary Government	-	-	-	(311)
Decr (Incr) in Due From Component Units	(120)	(41)	-	-
Decr (Incr) in Inventories	5,107	24	-	15
Decr (Incr) in Intangible Assets	7	-	-	-
Decr (Incr) in Long-term Loans/Notes Receivable	1,590	(1,272)	-	(13,613)
Decr (Incr) in Other Assets	(2,715)	(79)	-	816
Incr (Decr) in Accounts Payable	2,379	(27)	1	(143)
Incr (Decr) in Lottery Prizes Payable	766	-	-	-
Incr (Decr) in Due to Other Funds	(18)	(366)	-	423
Incr (Decr) in Due to Other Governments	5	-	-	-
Incr (Decr) in Due to Primary Government	-	-	-	(84)
Incr (Decr) in Due to Component Units	12	3	-	-
Incr (Decr) in Deferred Revenue	559	115	-	(3,800)
Incr (Decr) in Bonds/Notes Payable	(49)	-	-	-
Incr (Decr) in Property Held in Trust	2,436	52	-	(806)
Incr (Decr) in Compensated Absences Payable	(247)	115	-	(46)
Incr (Decr) in Estimated Insurance Claims	(41)	(4,250)	-	(148,306)
Net Cash Provided by (Used For) Operating Activities	<u>\$ 12,803</u>	<u>\$ 7,572</u>	<u>4,211</u>	<u>\$ 60,937</u>
SCHEDULE OF NONCASH TRANSACTIONS:				
Fixed Asset Acquisitions from Capital Leases	\$ 56	\$ 2,210	-	\$ -
Asset Acquisitions from Contributed Capital Transfers from Other Funds	1,303	2,138	-	-
Asset Disposals from Contributed Capital	-	(308)	-	-
Total Noncash Transactions	<u>\$ 1,359</u>	<u>\$ 4,040</u>	<u>-</u>	<u>\$ -</u>
RECONCILIATION FOR NONEXPENDABLE TRUST:				
Cash and Cash Equivalents, June 30		\$	51,857	
Cash and Cash Equivalents, Expendable Trust, Pension Trust and Agency			773,484	
Cash and Cash Equivalents per Combined Balance Sheet, Trust and Agency		<u>\$</u>	<u>825,341</u>	

STATE OF MONTANA
Combining Balance Sheet
Component Units - Proprietary Fund Types
June 30, 1996
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
ASSETS:					
Cash/Cash Equivalents	\$ 4,515	\$ 239	\$ 37,477	\$ 7,735	49,966
Receivables (Net)	4,290	118	19,915	3,321	27,644
Due from Primary Government (Note 13)	1	-	36	287	324
Due from Other Funds (Note 13)	-	-	1,770	37	1,807
Inventories	-	-	58	-	58
Long-Term Loans/Notes Receivable	355,154	211	-	-	355,365
Investments (Note 4)	159,922	605	481,302	11,109	652,938
Equipment	278	18	3,508	-	3,804
Accumulated Depreciation	(186)	(10)	(1,540)	-	(1,736)
Intangible Assets	22	-	3,249	-	3,271
Deferred Charges	5,375	-	-	2,938	8,313
Other Assets	26	-	810	-	836
TOTAL ASSETS	\$ 529,397	\$ 1,181	\$ 546,585	\$ 25,427	1,102,590
LIABILITIES/FUND EQUITY:					
Liabilities:					
Accounts Payable	\$ 4,718	\$ 2	\$ 444	\$ 549	5,713
Due to Primary Government (Note 13)	36	11	913	2	962
Due to Other Funds (Note 13)	2	-	8	1,745	1,755
Deferred Revenue	-	1	17,673	228	17,902
Bonds/Notes Payable (Net) (Note 12)	439,979	-	-	129,057	569,036
Property Held in Trust	-	-	1,028	-	1,028
Compensated Absences Payable	37	19	608	42	706
Estimated Insurance Claims (Note 9)	-	-	294,478	248,802	543,280
Arbitrage Rebate Tax Payable	38	-	-	140	178
Total Liabilities	444,810	33	315,152	380,565	1,140,560
Fund Equity:					
Contributed Capital (Note 17)	-	-	11,599	-	11,599
Retained Earnings:					
Reserved for Debt Service (Note 15)	84,587	-	-	14,169	98,756
Unreserved	-	1,148	219,834	(369,307)	(148,325)
Total Fund Equity	84,587	1,148	231,433	(355,138)	(37,970)
TOTAL LIABILITIES/FUND EQUITY	\$ 529,397	\$ 1,181	\$ 546,585	\$ 25,427	1,102,590

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Statement of Revenues, Expenses and Changes in Retained Earnings
Component Units - Proprietary Fund Types
For the Fiscal Year Ended June 30, 1996
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
OPERATING REVENUES:					
Charges for Services	\$ 42	\$ 227	\$ 36	\$ -	\$ 305
Investment Earnings	11,161	40	33,125	1,164	45,490
Financing Income	27,603	20	-	-	27,623
Contributions/Premiums	-	-	114,458	(94)	114,364
Payroll Taxes	-	-	-	46,439	46,439
Other Operating Revenues	698	30	482	-	1,210
Total Operating Revenues	39,504	317	148,101	47,509	235,431
OPERATING EXPENSES:					
Personal Services	408	55	6,672	1,116	8,251
Contractual Services	1,800	48	2,772	274	4,894
Supplies/Materials	14	2	249	38	303
Benefits/Claims (Note 3)	-	-	(29,833)	(24,689)	(54,522)
Depreciation	24	1	471	-	496
Amortization	13	-	36	-	49
Utilities/Rent	35	-	150	27	212
Communications	21	4	459	83	567
Travel	46	22	113	11	192
Repair/Maintenance	49	-	129	22	200
Interest Expense	32,260	-	-	8,921	41,181
Arbitrage Rebate Tax	119	-	-	56	175
Other Operating Expenses	41	10	5,063	1,141	6,255
Total Operating Expenses	34,830	142	(13,719)	(13,000)	8,253
Operating Income (Loss)	4,674	175	161,820	60,509	227,178
NONOPERATING REVENUES (EXPENSES):					
Gain (Loss) Sale of Fixed Assets	-	-	1	-	1
Total Nonoperating Revenues (Expenses)	-	-	1	-	1
Income (Loss) Before Extraordinary Items	4,674	175	161,821	60,509	227,179
Loss on Debt Extinguishment (Note 12)	-	-	-	(1,709)	(1,709)
Net Income (Loss)	4,674	175	161,821	58,800	225,470
RETAINED EARNINGS - JULY 1 -	79,913	973	58,013	(413,938)	(275,039)
RETAINED EARNINGS - JUNE 30	\$ 84,587	\$ 1,148	\$ 219,834	\$ (355,138)	\$ (49,569)

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA
Combining Statement of Cash Flows
Component Units - Proprietary Fund Types
For the Fiscal Year Ended June 30, 1996
(Expressed in Thousands)

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from Sales and Services	\$ 38	\$ 259	\$ 113,008	\$ (22)	\$ 113,283
Collections of Principal and Interest on Loans	71,126	106	-	-	71,232
Cash Payments for Loans	(57,242)	-	-	-	(57,242)
Payments to Suppliers for Goods and Services	(2,005)	(79)	(5,327)	(1,023)	(8,434)
Payments to Employees	(377)	(55)	(7,000)	(1,120)	(8,552)
Cash Payments for Claims	-	-	(71,452)	(22,300)	(93,752)
Collection of Notes Receivable	-	-	-	(36)	(36)
Collection of Payroll Taxes	-	-	-	43,258	43,258
Other Operating Revenues	698	-	482	-	1,180
Net Cash Provided by (Used for) Operating Activities	12,238	231	29,711	18,757	60,937
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Payment of Principal and Interest on Bonds and Notes	(105,142)	-	-	(45,759)	(150,901)
Proceeds from Issuance of Bonds and Notes	89,856	-	-	-	89,856
Payment of Bond Issuance Costs	(1,493)	-	-	-	(1,493)
Transfers to Other Funds	-	-	-	(638)	(638)
Transfers from Other Funds	-	-	-	(114)	(114)
Transfers from Primary Government	-	-	-	27,426	27,426
Net Cash Provided by (Used for) Noncapital Financing Activities	(16,779)	-	-	(19,085)	(35,864)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of Fixed Assets	(68)	(6)	(2,114)	-	(2,188)
Proceeds from Sale of Fixed Assets	-	-	3	-	3
Net Cash Used for Capital and Related Financing Activities	(68)	(6)	(2,111)	-	(2,185)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of Investments	(795,697)	(606)	(216,601)	(5,038)	(1,017,942)
Proceeds from Sales or Maturities of Investments	790,311	200	153,290	4,627	948,428
Interest and Dividends on Investments	11,604	29	32,421	1,487	45,541
Arbitrage Rebate Tax	(206)	-	-	-	(206)
Net Cash Provided by (Used for) Investing Activities	6,012	(377)	(30,890)	1,076	(24,179)
Net Increase (Decrease) in Cash and Cash Equivalents	1,403	(152)	(3,290)	748	(1,291)
Cash and Cash Equivalents, July 1	3,112	391	40,767	6,987	51,257
Cash and Cash Equivalents, June 30	\$ 4,515	\$ 239	\$ 37,477	\$ 7,735	\$ 49,966

The notes to the financial statements are an integral part of this statement.

	HOUSING AUTHORITY	HEALTH FACILITIES AUTHORITY	STATE COMPENSATION INSURANCE (NEW FUND)	STATE COMPENSATION INSURANCE (OLD FUND)	TOTALS
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:					
Operating Income (Loss)	\$ 4,674	\$ 175	\$ 161,820	\$ 60,509	\$ 227,178
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:					
Depreciation	24	1	471	-	496
Amortization	13	-	36	-	49
Interest Expense	32,260	-	-	8,921	41,181
Interest on Investments	(11,161)	(40)	(33,125)	(1,164)	(45,490)
Arbitrage Rebate Tax	119	-	-	56	175
Change in Assets and Liabilities:					
Decr (Incr) in Accounts Receivable	1	2	5,908	(3,051)	2,860
Decr (Incr) in Due From Other Funds	-	-	272	71	343
Decr (Incr) in Due From Primary Government	-	-	(24)	(287)	(311)
Decr (Incr) in Inventories	-	-	15	-	15
Decr (Incr) in Long-Term Loans/Notes Receivable	(13,700)	87	-	-	(13,613)
Decr (Incr) in Other Assets	(64)	-	815	65	816
Incr (Decr) in Accounts Payable	10	(1)	(110)	(42)	(143)
Incr (Decr) in Due to Other Funds	4	-	(104)	523	423
Incr (Decr) in Due to Primary Government	4	6	19	(113)	(84)
Incr (Decr) in Deferred Revenue	46	-	(4,074)	228	(3,800)
Incr (Decr) in Property Held in Trust	-	-	(806)	-	(806)
Incr (Decr) in Compensated Absences Payable	8	1	(42)	(13)	(46)
Incr (Decr) in Estimated Insurance Claims	-	-	(101,360)	(46,946)	(148,306)
Net Cash Provided by (Used for) Operating Activities	<u>\$ 12,238</u>	<u>\$ 231</u>	<u>\$ 29,711</u>	<u>\$ 18,757</u>	<u>\$ 60,937</u>

STATE OF MONTANA
Statement of Plan Net Assets
Component Unit - Pension Trust Fund
June 30, 1996
(Expressed in Thousands)

	<u>TRS</u>
ASSETS:	
Cash/Cash Equivalents (Note 4)	\$ 47,155
Receivables (Net):	
Employer Contributions	4,262
Employee Contributions	3,901
Interest	6,591
Other Receivables	46
Due from Primary Government (Note 13)	14
Due from Other Funds (Note 13)	522
Investments, at Fair Value:	
Equity in Pooled Investments (Note 4)	1,304,496
Other Investments (Note 4)	96,186
Land	35
Buildings/Improvements	158
Equipment	208
Accumulated Depreciation	(214)
Intangible Assets	97
 TOTAL ASSETS	 <u>\$ 1,463,457</u>
LIABILITIES/FUND BALANCES:	
Accounts Payable	\$ 292
Due to Primary Government (Note 13)	27
Due to Other Governments	3
Due to Other Funds (Note 13)	10
Lease/Installment Purch. Payable (Note 11)	31
Property Held in Trust	7
Compensated Absences Payable (Note 1)	36
 Total Liabilities	 <u>406</u>
 Fund Balances Reserved for Employees' Pension Benefits	 <u>1,463,051</u>
 TOTAL LIABILITIES/FUND BALANCES	 <u>\$ 1,463,457</u>

STATE OF MONTANA
Combining Statement of Changes in Plan Net Assets
Pension Trust Funds and Discretely Presented Component Unit
For the Fiscal Year Ended June 30, 1996
(Expressed in Thousands)

	PERS	MUNICIPAL POLICE	FIRE- FIGHTERS UNIFIED	SHERIFFS	HIGHWAY PATROL	JUDGES	GAME WARDENS	VOLUNTEER FIRE- FIGHTERS	TOTAL PRIMARY GOVT	COMP UNIT TRS
ADDITIONS:										
Charges for Services	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5	\$ -
Contributions/Premiums:										
Employer	41,881	6,650	6,111	1,558	2,541	1,128	230	862	60,961	40,627
Employee	43,524	1,643	1,066	1,538	621	203	227	-	48,822	39,174
Other Contributions	190	-	-	4	-	-	-	-	194	190
Net Investment Earnings:										
Investment Earnings	194,815	7,188	6,651	7,306	5,162	2,803	2,116	899	226,940	162,742
Administrative Investment Expense	(866)	(23)	(20)	(24)	(17)	(10)	(6)	(4)	(970)	(719)
Other Additions	5	-	-	-	-	-	-	-	5	16
Total Additions	279,554	15,458	13,808	10,382	8,307	4,124	2,567	1,757	335,957	242,030
DEDUCTIONS:										
Benefits	80,240	6,839	5,755	1,294	3,435	1,174	1,093	737	100,567	83,763
Refunds	10,417	114	29	322	68	-	-	-	10,950	4,159
Administrative Expenses:										
Personal Services	572	-	-	-	-	-	-	-	572	335
Contractual Services	378	-	-	-	-	-	-	-	378	156
Supplies/Materials	41	-	-	-	-	-	-	-	41	23
Depreciation	20	-	-	-	-	-	-	-	20	23
Amortization	1	-	-	-	-	-	-	-	1	30
Utilities/Rent	12	-	-	-	-	-	-	-	12	24
Communications	53	-	-	-	-	-	-	-	53	39
Travel	21	-	-	-	-	-	-	-	21	13
Repair/Maintenance	7	-	-	-	-	-	-	-	7	29
Interest Expense	-	-	-	-	-	-	-	-	-	5
Other Operating Expenses	-	31	26	22	14	342	5	22	462	9
Local Assistance	-	-	-	-	-	-	-	15	15	-
Loss on Sale of Fixed Assets	6	-	-	-	-	-	-	-	6	-
Total Deductions	91,768	6,984	5,810	1,638	3,517	1,516	1,098	774	113,105	88,608
Net Increase (Decrease)	187,786	8,474	7,998	8,744	4,790	2,608	1,469	983	222,852	153,422
FUND BALANCES - JULY 1 -										
As Previously Reported	1,276,897	57,610	56,473	55,526	38,928	20,401	14,949	9,970	1,530,754	1,067,111
Prior Period Adjustments	284,993	7,976	6,913	8,476	6,491	3,562	2,948	551	321,910	242,518
FUND BALANCES - JULY 1 -										
As Restated	1,561,890	65,586	63,386	64,002	45,419	23,963	17,897	10,521	1,852,664	1,309,629
FUND BALANCES - JUNE 30	\$ 1,749,676	\$ 74,060	\$ 71,384	\$ 72,746	\$ 50,209	\$ 26,571	\$ 19,366	\$ 11,504	\$ 2,075,516	\$ 1,463,051

STATE OF MONTANA
Combining Balance Sheet
Component Units - All Higher Education Funds
June 30, 1996
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
ASSETS:				
Cash/Cash Equivalents	\$ 14,236	\$ 16,892	\$ 10,951	\$ 2,005
Receivables (Net)	2,872	516	834	9,091
Interfund Loans Receivable (Note 13)	700	2,065	-	-
Due from Other Governments	3	2	-	3,955
Due from Primary Government (Note 13)	15	131	91	1,049
Due from Other Funds (Note 13)	5,408	4,286	425	207
Inventories	93	1,593	2,417	-
Equity in Pooled Investments	-	-	-	-
Long-Term Notes/Loans Receivable	-	-	-	-
Advances to Other Funds	-	-	14	-
Investments (Note 4)	-	-	-	2
Land	-	-	-	-
Buildings/Improvements	-	-	-	-
Equipment	-	-	-	-
Other Fixed Assets	-	-	-	-
Construction in Progress	-	-	-	-
Intangible Assets	-	-	-	-
Deferred Charges	-	-	-	-
Other Assets	2,690	895	22	173
TOTAL ASSETS	\$ 26,017	\$ 26,380	\$ 14,754	\$ 16,482
LIABILITIES/FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ 11,968	\$ 3,740	\$ 1,632	\$ 2,994
Interfund Loans Payable (Note 13)	-	-	-	2,500
Advances from Other Funds	-	25	16	14
Due to Other Governments	292	13	-	20
Due to Primary Government (Note 13)	1,144	257	22	45
Due to Other Funds (Note 13)	4,036	2,255	1,324	4,587
Deferred Revenue	5,337	1,243	668	3,770
Lease/Installment Purchase Payable (Note 11)	-	-	-	-
Bonds/Notes Payable (Note 12)	76	5	5	-
Property Held in Trust	184	58	356	156
Compensated Absences Payable (Note 1)	20,269	4,347	1,643	131
Total Liabilities	43,306	11,943	5,666	14,217
Fund Balances:				
Net Investment in Plant	-	-	-	-
Reserved For:				
Encumbrances	1,198	89	-	34
Student Loans/Endowments	-	-	-	-
Construction	-	-	-	-
Unreserved	(18,487)	14,348	9,088	2,231
Total Fund Balances	(17,289)	14,437	9,088	2,265
TOTAL LIABILITIES/FUND BALANCES	\$ 26,017	\$ 26,380	\$ 14,754	\$ 16,482

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS				PLANT FUNDS			
STUDENT LOANS	ENDOWMENTS	AGENCY	UNEXPENDED	RENEWAL AND REPLACEMENT	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT	TOTALS
\$ 3,123	\$ 2,327	\$ 2,583	\$ 43,379	\$ 13,174	\$ 4,389	-	\$ 113,059
24,496	12	81	329	66	75	-	38,372
-	-	-	-	-	-	-	2,765
7	-	-	-	-	-	-	3,967
5	-	20	262	1	318	-	1,892
14	-	4,052	292	664	1,045	-	16,393
-	-	-	-	-	-	-	4,103
-	2,388	42	-	-	-	-	2,430
-	-	-	51	-	-	-	51
-	-	-	16	172	285	-	487
-	706	-	1,034	1,955	-	-	3,697
-	-	-	-	-	-	13,293	13,293
-	-	-	-	-	-	303,733	303,733
-	-	-	-	-	-	127,276	127,276
-	-	-	-	-	-	74,149	74,149
-	-	-	55,193	2,384	-	23,294	80,871
-	-	-	-	-	-	2,247	2,247
-	-	-	-	-	1,790	-	1,790
-	-	262	68	3	-	-	4,113
\$ 27,645	\$ 5,433	\$ 7,040	\$ 100,624	\$ 18,419	\$ 7,902	\$ 543,992	\$ 794,688
\$ 5	\$ -	\$ 690	\$ 2,330	\$ 477	\$ 1,347	\$ -	\$ 25,183
-	-	-	265	-	-	-	2,765
-	-	-	-	432	-	-	487
-	-	211	-	-	-	-	536
-	-	745	139	5	-	-	2,357
274	38	1,492	234	362	462	-	15,064
-	-	-	66	88	60	-	11,232
-	-	-	-	-	-	1,802	1,802
-	-	-	71,868	225	2,194	67,753	142,126
-	-	3,902	-	-	-	-	4,656
-	-	-	-	-	-	-	26,390
279	38	7,040	74,902	1,589	4,063	69,555	232,598
-	-	-	-	-	-	474,437	474,437
-	-	-	11	7	-	-	1,339
25,341	4,452	-	-	-	-	-	29,793
-	-	-	12,361	1,261	-	-	13,622
2,025	943	-	13,350	15,562	3,839	-	42,899
27,366	5,395	-	25,722	16,830	3,839	474,437	562,090
\$ 27,645	\$ 5,433	\$ 7,040	\$ 100,624	\$ 18,419	\$ 7,902	\$ 543,992	\$ 794,688

STATE OF MONTANA
Statement of Changes in Fund Balance
Component Units - All Higher Education Funds
For the Fiscal Year Ended June 30, 1996
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
REVENUES/OTHER ADDITIONS:				
Tuition/Fees	\$ 80,912	\$ 10,831	\$ 8,685	\$ 3
Federal Grants/Contracts	4,301	46	-	90,576
State Grants/Contracts	-	448	-	8,703
Local Grants/Contracts	-	-	-	1,408
Private Gifts/Grants/Donations	-	797	1	13,620
Endowment Income	-	-	-	77
Sales/Services-Educational Activities	855	1,768	1	101
Sales/Services-Designated/Auxiliary Enterprises	1	21,027	45,640	77
Indirect Costs Recovered	224	7,733	-	-
Investment Earnings	100	127	848	244
Acquisition of Long-Lived Assets	-	-	-	-
Retirement of Indebtedness	-	-	-	-
Other Revenues/Additions	190	3,247	555	349
Total Revenues/Other Additions	86,583	46,024	55,730	115,158
Intrafund Revenues/Other Additions	(4)	(7)	-	(547)
Net Revenues/Other Additions	86,579	46,017	55,730	114,611
EXPENDITURES/OTHER DEDUCTIONS:				
Instruction	95,825	5,354	4	4,781
Research	11,307	7,141	-	35,224
Public Service	5,954	4,663	-	15,671
Academic Support	16,776	9,470	-	2,047
Student Services	15,375	10,991	-	3,901
Institutional Support	16,006	2,652	-	521
Independent Operations	1,911	-	-	-
Scholarships/Fellowships	6,928	269	-	49,284
Auxiliary Enterprises	-	20	45,792	104
Operation/Maintenance of Plant	21,245	39	-	97
Expended for Plant	-	-	-	-
Debt Services	106	227	130	22
Capital Outlay	6,946	3,237	413	3,737
Disposal of Long-Lived Assets	-	-	-	-
Debt Incurred	-	-	-	-
Other Expenditures/Deductions	1,073	3	85	46
Total Expenditures/Other Deductions	199,452	44,066	46,424	115,435
Intrafund Expenditures/Other Deductions	(4)	(7)	-	(547)
Net Expenditures/Other Deductions	199,448	44,059	46,424	114,888
TRANSFERS IN (OUT)/OTHER ADDITIONS (DEDUCTIONS):				
Transfers from State General Fund	95,880	-	-	-
Millage Transfers	15,079	-	-	-
Mandatory Transfers	707	(407)	(6,633)	1
Nonmandatory Transfers	(568)	(1,012)	(1,997)	168
Transfers from Primary Government	-	-	215	-
Total Transfers In (Out) (Note 13)	111,098	(1,419)	(8,415)	169
Move Equity to Investment in Plant	-	-	-	-
Loan Proceeds	-	-	-	-
Bond Proceeds	-	-	-	-
Total Transfers In (Out)/Other Additions (Deductions)	111,098	(1,419)	(8,415)	169
Net Increase (Decrease) in Fund Balances	(1,771)	539	891	(108)
FUND BALANCES - July 1 - As Previously Reported	(15,519)	13,896	8,197	2,375
Prior Period Adjustments (Note 3)	1	-	-	-
FUND BALANCES - July 1 - As Restated	(15,518)	13,896	8,197	2,375
Residual Equity Transfers (Note 13)	-	2	-	(2)
FUND BALANCES - June 30	\$ (17,289)	\$ 14,437	\$ 9,088	\$ 2,265

The notes to the financial statements are an integral part of this statement.

FIDUCIARY FUNDS			PLANT FUNDS		
STUDENT LOANS	ENDOWMENTS	UNEXPENDED	RENEWAL AND REPLACEMENT	RETIREMENT OF INDEBTEDNESS	INVESTMENT IN PLANT
\$ -	\$ -	\$ 1,999	\$ 1,129	\$ 2,419	\$ -
909	-	-	143	23	-
151	-	-	-	-	-
-	-	-	-	-	-
10	69	3,408	154	-	-
-	34	-	-	-	-
-	-	-	-	-	-
-	-	17	56	2	-
-	-	-	-	-	-
433	847	2,163	620	473	-
-	-	-	-	-	69,181
-	-	-	-	-	5,199
506	-	2,647	1,535	70	-
2,009	950	10,234	3,637	2,987	74,380
-	-	-	(115)	(32)	-
2,009	950	10,234	3,522	2,955	74,380
-	-	58	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
146	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	1,292	4,246	19	-
-	-	1,135	220	17,237	-
-	-	4,408	4,070	-	-
-	-	-	-	-	49,890
-	-	-	-	-	5,196
547	-	-	-	-	-
693	-	6,893	8,536	17,256	55,086
-	-	-	(115)	(32)	-
693	-	6,893	8,421	17,224	55,086
-	-	20	9	-	-
-	-	-	-	-	-
-	-	(930)	(611)	8,865	-
(13)	(513)	25	7,223	(2,881)	-
-	-	746	13	854	-
(13)	(513)	(139)	6,634	6,838	-
-	-	1,762	347	10	-
-	-	220	-	-	-
-	-	-	-	5,585	-
(13)	(513)	1,843	6,981	12,433	-
1,303	437	5,184	2,082	(1,836)	19,294
26,047	5,100	20,535	14,751	5,675	455,143
16	(142)	-	-	-	-
26,063	4,958	20,535	14,751	5,675	455,143
-	-	3	(3)	-	-
\$ 27,366	\$ 5,395	\$ 25,722	\$ 16,830	\$ 3,839	\$ 474,437

STATE OF MONTANA
Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes
Component Units - Higher Education Fund Type
For the Fiscal Year Ended June 30, 1996
(Expressed in Thousands)

	CURRENT FUNDS			
	UNRESTRICTED			
	GENERAL OPERATING	DESIGNATED	AUXILIARY	RESTRICTED
REVENUES:				
Tuition/Fees	\$ 80,912	\$ 10,831	\$ 8,685	\$ 3
Federal Grants/Contracts	4,301	46	-	90,576
State Grants/Contracts	-	448	-	8,703
Local Grants/Contracts	-	-	-	1,408
Private Gifts/Grants/Donations	-	797	1	13,620
Endowment Income	-	-	-	77
Sales/Services-Educational Activities	855	1,768	1	101
Sales/Services-Designated/Auxiliary Enterprises	1	21,027	45,640	77
Indirect Costs Recovered	224	7,733	-	-
Investment Earnings	100	127	848	244
Other Revenues	190	3,247	555	349
Total Revenues	86,583	46,024	55,730	115,158
Intrafund Revenues	(4)	(7)	-	(547)
Net Revenues	86,579	46,017	55,730	114,611
EXPENDITURES:				
Educational and General:				
Instruction	95,825	5,354	4	4,781
Research	11,307	7,141	-	35,224
Public Service	5,954	4,663	-	15,671
Academic Support	16,776	9,470	-	2,047
Student Services	15,375	10,991	-	3,901
Institutional Support	16,006	2,652	-	521
Scholarships/Fellowships	6,928	269	-	49,284
Operation/Maintenance of Plant	21,245	39	-	97
Other Expenditures	1,073	3	85	46
Total Educational and General Expenditures	190,489	40,582	89	111,572
Intrafund Expenditures	(4)	(7)	-	(547)
Net Educational and General Expenditures	190,485	40,575	89	111,025
Auxiliary Enterprises	-	20	45,792	104
Independent Operations	1,911	-	-	-
Debt Services	106	227	130	22
Capital Outlay	6,946	3,237	413	3,737
Total Expenditures	199,448	44,059	46,424	114,888
TRANSFERS IN (OUT):				
Transfers from State General Fund	95,880	-	-	-
Millage Transfers	15,079	-	-	-
Mandatory Transfers	707	(407)	(6,633)	1
Nonmandatory Transfers	(568)	(1,012)	(1,998)	168
Transfers from Primary Government	-	-	215	-
Total Transfers In (Out) (Note 13)	111,098	(1,419)	(8,416)	169
Net Increase (Decrease) in Fund Balances	\$ (1,771)	\$ 539	\$ 890	\$ (108)

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1996

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements of the Higher Education Funds have been prepared in conformity with GAAP for colleges and universities as prescribed by the American Institute of Certified Public Accountants.

A. Reporting Entity - For financial reporting purposes, the State of Montana has included all funds and account groups which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

Discrete Component Units

These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The Component Units columns of the combined financial statements include the financial data of these entities:

Housing Authority (Proprietary Fund Type) - This Authority is a quasi-judicial board, consisting of seven members appointed by the Governor, created in 1975 to facilitate the availability of decent, safe and sanitary housing to persons and families of lower income. The Board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$975,000,000. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The Authority is audited annually by the Legislative Auditor and its report is issued under separate cover.

Health Facilities Authority (Proprietary Fund Type) - This Authority is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. Its purpose is to contain future health care costs by offering debt financing or refinancing at reduced rates to Montana non-profit private and public health care institutions for purchases of capital equipment and buildings. The Board issues revenue bonds to fulfill its purposes. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The Authority is audited by the Legislative Auditor every two years and its report is issued under separate cover.

State Compensation Insurance Fund (New and Old) (Proprietary Fund Type) - The Fund is a quasi-governmental corporation governed by a five member board appointed by the Governor. The Fund provides workers' compensation insurance. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990, and is financed by a .5 percent tax on each employer as well as a .2 percent tax on employee wages and distributive income of sole proprietors and subchapter S shareholders. Administrative operations and budgets are reviewed by the Governor and the Legislature. The Fund is audited annually by the Legislative Auditor and its report is issued under separate cover.

Teachers' Retirement System (Pension Trust Fund) - This retirement system is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers' Retirement Division are paid from interest earnings of the fund. The system is funded from employer and employee contributions and interest earnings. The system is audited annually by the Legislative Auditor and its report is issued under separate cover.

Universities and Colleges (Higher Education Funds) - The State Board of Regents has responsibility for the following institutions: University of Montana-Missoula and the units under it including Montana Tech of the University of Montana, Western Montana College of the University of Montana, the Colleges of Technology at Helena and Missoula and the Division of Technology at Butte; and Montana State University-Bozeman and the units under it including Montana State University - Billings, Montana State University - Northern, and the Colleges of Technology located in Billings and Great Falls. All units are funded through State appropriations, tuition, federal grants, and private donations and grants. The units are audited by the Legislative Auditor every two years and their reports are issued under separate cover.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; and both (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation, and (3) private foundations supporting public education, over which the State exercises neither financial nor administrative control (see Note 19). Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General Fund.

B. Fund Structure - The State uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The financial activities of the State of Montana are classified into fund categories and account groups as described below:

GOVERNMENTAL FUNDS

General Fund - To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes (other than expendable trusts or major capital projects).

Debt Service Funds - To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds - To account for resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

PROPRIETARY FUNDS

Enterprise Funds - To account for operations (1) financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs primarily through user charges; or (2) where the legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate.

Internal Service Funds - To account for the financing of goods and services provided by one department or agency to other departments, agencies or other governmental entities on a cost-reimbursement basis.

FIDUCIARY FUNDS

Trust and Agency Funds - To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. These include: (1) Expendable Trust Funds; (2) Nonexpendable Trust Funds; (3) Pension Trust Funds; and (4) Agency Funds.

ACCOUNT GROUPS

General Fixed Assets Account Group - To account for all fixed assets of the State, except those accounted for in the Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

General Long-Term Obligations Account Group - To account for all long-term obligations of the State, except those accounted for in Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

HIGHER EDUCATION (UNIVERSITY AND COLLEGE) FUNDS

Current Funds

Unrestricted

General Operating - To account for the portion of financial resources that can be expended for general operations and is free of externally imposed restrictions, except those imposed by the legislature.

Designated - To account for those resources associated with general operations which are separately classified in order to accumulate costs recharged to other funds and to identify special activities of educational departments which are supported by supplemental assessments and the receipt and disposition of special supply and facility fees which are approved for collection beyond normal course fees.

Auxiliary - To account for those financial resources devoted to providing essential on-campus services primarily to students, faculty or staff where a fee relating to the service is charged.

Restricted - To account for the portion of financial resources that can be expended only for purposes imposed by sources external to the Board of Regents and the legislature.

Fiduciary Funds

Student Loans - To account for moneys which may be loaned to students, faculty or staff for purposes related to education, organized research or public services by the higher education units.

Endowments - To account for moneys where the principal is available for investment. Investment earnings are to be transferred to (or recorded directly in) appropriate operating funds pursuant to prevailing administrative requirements.

Agency - To account for moneys where the State acts in the capacity of a custodian or fiscal agent for individual students, faculty, staff or qualified organizations.

Plant Funds

Unexpended - To account for unexpended resources derived from various sources which are used to finance the acquisition/construction of plant assets and the associated liabilities.

Renewal and Replacement - To account for resources used to provide for the renewal and replacement of plant fund assets as distinguished from additions and improvements.

Retirement of Indebtedness - To account for resources accumulated for interest and principal payments and other debt service charges, including contributions to reserves, relating to plant fund indebtedness.

Investment in Plant - To account for all long-lived assets in the service of the higher education unit as well as all associated liabilities.

C. Basis of Accounting - The accounting and reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds and Expendable Trust Funds are accounted for on a spending or "financial flow" measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is followed in the Governmental Funds and Expendable Trust Funds and in the Agency Funds for the purpose of asset and liability recognition. Under the modified accrual basis, revenues are susceptible to accrual and recognized when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures incurred. Intergovernmental revenues received but not earned are recorded as deferred revenues. All other revenue including taxes on coal sales, gas and oil production, individual income and other self-assessed taxes is considered available if due within 60 days of fiscal year-end. Based on historical analysis, a liability has been recognized for collected withholding taxes to be refunded in fiscal year 1997. Expenditures are recognized when the related fund liability is incurred, with the following exceptions:

- (1) principal and interest on long-term debt is recognized when due;
- (2) prepayments are accounted for as expenditures in the period of acquisition; and
- (3) inventory items are considered expenditures when purchased.

All Proprietary, Pension Trust and Nonexpendable Trust Funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means all assets and liabilities associated with these activities are included on their balance sheets. Operating statements for these funds present increases (revenues) and decreases (expenses) in net total assets.

Proprietary, Pension Trust, Nonexpendable Trust and Higher Education Funds are maintained and reported on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. In Higher Education Funds, depreciation expense related to plant fund assets is not recorded; student tuition and fees are fully recognized in the fiscal year in which the related courses or activities are principally conducted. Unbilled receivables of Proprietary and Higher Education Funds are recognized as revenue.

Significant intrafund transactions and balances have been eliminated.

D. Proprietary Activity Accounting and Financial Reporting - Activities accounted for in the state's proprietary, non-expendable trust and pension trust funds and proprietary type component units follow all applicable GASB pronouncements and those private sector pronouncements issued on or before November 30, 1989.

E. Cash/Cash Equivalents - For all funds, except the Housing Authority in the Component Unit Proprietary Funds, cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the state treasurer, other cash deposits, and mortgage payments in transit (See Note 4).

F. Receivables - This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. The allowance for uncollectible taxes at June 30, 1996, is \$20.51 million.

G. Inventories - Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental and Expendable Trust Funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reserve of fund balance, indicating they do not constitute "available spendable resources." An exception is the food stamp inventory balance in the special revenue fund which is offset by deferred revenue per GASB Statement 24.

Proprietary, Pension Trust, Nonexpendable Trust and Higher Education Funds report using the "consumption method," meaning inventories are expensed as used.

H. Investments - In accordance with the statutorily mandated "Prudent Expert Principle", the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. All investments, except the deferred compensation plan investments and pension plan investments are reported at cost or amortized cost in the balance sheet. The deferred compensation plan investments and pension plan investments are carried at market value. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 4 on Cash/Cash Equivalents and Investments).

I. Deferred Charges - Unamortized bond issuance costs are reported in this category.

J. Deferred Revenue - Deferred revenues are those for which asset recognition criteria have been met but for which revenue recognition criteria have not been met.

K. Compensated Absences - Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the State do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. For fiscal year 1996, 1,303 hours were contributed to the sick leave pool and 839 hours were withdrawn leaving a balance of 5,067 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave of Proprietary and Pension Trust Funds is recorded as an expense and liability of those funds; for higher education the expense and liability is recorded in the current unrestricted funds as the benefits accrue to employees. The liability amount recorded in the General Long-Term Obligations Account Group is not expected to be liquidated with expendable financial resources, thus no expenditure or liability is reported in the governmental funds. Upon retirement or termination, an employee is paid for 100 per cent of unused vacation leave and 25 per cent of unused sick leave.

As of June 30, 1996, the State's liability for unused vacation and sick leave for Higher Education Funds was \$26,390,000. The leave liabilities for the remaining agencies at June 30, 1996, were \$48,071,000, an increase of \$2,931,000 over the June 30, 1995, leave liability of \$45,140,000. The following table reflects the change (in thousands):

	<u>Balance July 1, 1995</u>	<u>Leave Earned</u>	<u>Leave Used</u>	<u>Balance June 30, 1996</u>
PRIMARY GOVERNMENT				
Governmental Fund Types and Similar Trust Funds	\$ 40,850	\$ 24,947	\$ 21,855	\$ 43,942
Proprietary Fund Types and Similar Trust Funds	<u>3,504</u>	<u>1,773</u>	<u>1,890</u>	<u>3,387</u>
Total	\$ 44,354	\$ 26,720	\$ 23,745	\$ 47,329
COMPONENT UNITS				
Propriety Fund Types and Similar Trust Funds	<u>786</u>	<u>469</u>	<u>513</u>	<u>742</u>
Total Non-Higher Education Funds	<u>\$ 45,140</u>	<u>\$ 27,189</u>	<u>\$ 24,258</u>	<u>\$ 48,071</u>

L. Encumbrances - For budget control purposes, the State utilizes encumbrance accounting, under which purchase orders, contracts and other commitments are recorded as expenditures and liabilities in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at fiscal year-end are reported as reservations of fund balances for subsequent year expenditures.

M. Fund Balance/Retained Earnings Reserves - Portions of fund equity are reported as "reserved" to indicate (1) amounts not available for expenditure, such as equity represented by inventories; and (2) amounts legally segregated for a specific future use, such as those pledged for debt service and retirement benefits or legally-binding contractual agreements.

N. Property Taxes - Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due. The State recognizes property tax revenues as available if they are collectible within 60 days after fiscal year-end. Material delinquent and total uncollected current year property taxes receivable are recorded in Receivables (Net of Uncollectibles).

Personal property tax levies are set each August and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due.

Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

O. Other Taxes - On the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for All Governmental Fund Types and Expendable Trust Funds, the revenue category "Other Taxes" consists of the following taxes (in thousands):

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Exp. Trust Fund
Video Gaming	\$10,736	\$ (152)	\$ -	\$ -	\$23,000
Insurance Premium	23,119	9,808	-	-	-
University System Millage	-	15,337	-	-	-
Cigarette/Tobacco	-	1,725	10,531	2,281	-
Inheritance/Estate	15,404	-	-	-	-
Accommodations	127	8,479	-	-	-
Alcoholic Beverage	2,219	2,467	-	-	-
Miscellaneous	<u>11,348</u>	<u>12,582</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER TAXES	<u>\$62,953</u>	<u>\$50,246</u>	<u>\$10,531</u>	<u>\$2,281</u>	<u>\$23,000</u>

2. BUDGETARY REPORTING

A. State Budget Process - Montana prepares two annual budgets biennially in the odd-numbered years when the legislature meets. The constitution requires that legislative appropriations not exceed available revenues. The legislature only utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the General, Special Revenue and Capital Projects Funds, except for those State Special Revenue Funds which receive donations. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor and the legislative fiscal division. The Governor and budget director establish priorities and balance the budget. The Governor's budget is submitted to the legislative fiscal division which prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The legislature generally enacts one bill making all appropriations for the next two fiscal years. The Office of Budget and Program Planning establishes appropriations for each program by accounting entity (fund) within an agency. The legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. Additionally, the Governor, or his designee, may approve budget amendments for non-general fund moneys not available for consideration by the legislature and for emergencies. In the accompanying financial statements, reported budget amounts are as amended. Budget amendments authorized for fiscal year 1996 were not material. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the legislature or the governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued/encumbered. Fund balances/retained earnings are not reserved for reverted appropriations. For fiscal year 1996, reverted appropriations for all funds were \$180.6 million of which \$12.3 million were for the General Fund and \$57.2 million were for the Special Revenue Fund. Beginning with fiscal year 1994, agencies have the opportunity to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of the budget office.

Because appropriations for Capital Projects Funds are not made on an annual basis, activities for the Capital Projects Funds are not presented in the Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis - Unreserved Fund Balance.

B. Budget Basis - The legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in Proprietary Funds; compensated absences and inventories purchased in Higher Education Funds; certain loans from Governmental Funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.). The General and Special Revenue Fund Type budgetary statement includes a reconciliation of unreserved fund balance between "Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses" on the budgetary basis and the GAAP basis.

3. OTHER ACCOUNTING ISSUES

A. Accounting and Reporting Changes

The State made changes in its accounting and reporting practices to enhance conformance with GAAP. Except for the changes highlighted below, all changes reported in the accompanying financial statements that resulted in the restatement of beginning fund equity were made to correct errors of prior periods.

Effective in fiscal year 1996, statute requires that certain tax revenues collected by the State and required to be distributed to local government entities be accounted for in a fiduciary fund instead of the state special revenue fund. As a result of the change, approximately \$14.849 million and \$61.860 million in tax revenues previously accounted for in the state special revenue fund were accounted for in the agency fund and expendable trust fund, respectively.

The State implemented GASB Statement 24 - Accounting and Financial Reporting for Certain Grants and Other Financial Assistance. The implementation of GASB 24 resulted in the recording of \$58.8 million in food stamp receipts and disbursements and \$23.5 million in food stamp inventory and deferred revenue in the federal special revenue fund that had not been reported within the financial statements in prior years. In addition, the receipt and distribution of \$57.5 million in federal assistance to the schools and \$0.3 million in Taylor Grazing fees was accounted for in the federal special revenue fund rather than the agency fund type, as in prior years. These federal grant monies could no longer be accounted for as "pass-through" per GASB 24.

The State implemented GASB Statement 25 - Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and GASB Statement 27 - Accounting for Pensions by State and Local Governmental Employers. The implementation of these two statements resulted in the recording of a prior period adjustment of \$321.9 million in the pension trust funds and \$242.5 million in the component unit pension trust fund in order to restate beginning fund balance as a result of recording investments at market rather than cost.

B. Other

The Benefits/Claims expenditure amount of \$(54.522) million reported in the Component Units column in the combined proprietary fund operating statement consists of the amount of benefits paid and the actuarially determined change in estimated claims liability for the State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). The amounts for each fund are broken down as follows:

	<u>STATE COMPENSATION INSURANCE</u>	
	<u>NEW FUND</u>	<u>OLD FUND</u>
Benefit and Loss Adjustment Exp.	\$ 71,527	\$ 22,257
Decr. in Actuarially Estimated Claims	<u>(101,360)</u>	<u>(46,946)</u>
Total Benefits/Claims	<u>\$ (29,833)</u>	<u>\$(24,689)</u>

4. CASH/CASH EQUIVALENTS AND INVESTMENTS

This footnote details the following balance sheet classifications (in thousands):

Cash/Cash Equivalents	\$ 1,502,629
Equity in Pooled Investments	\$ 4,133,291
Investments	\$ 1,187,334

Carrying amounts and market values (Bank Balance for Cash Deposits) for the State's cash/cash equivalents and investments are presented in Tables 1 through 4. Information in Tables 3 and 4 does not tie directly to the amounts reported in the GPFS since certain funds' investments and equity in pooled investments are reported at market value in the GPFS as required by GASB Statement 25 while other funds' investment amounts are reported at book value.

A. General

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer's pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer's pooled cash account is invested by the Montana Board of Investments (BOI) in short term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer's pooled cash account there is a short term investment pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short term, highly liquid investments, the individual funds' investment in the STIP are reported as a cash equivalent.

Deposits with financial institutions are categorized to indicate the level of risk assumed by the State. **Category 1** consists of deposits that are insured or collateralized with securities held by the state or by its agent in the state's name. **Category 2** consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the state's name. **Category 3** deposits are uncollateralized. The State's Cash Deposits are categorized in Table 1.

The State's cash equivalents and investments are categorized to indicate the risk level assumed by the State in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments and Table 4 - Investments to disclose the level of risk assumed by the State at fiscal year-end.

Category 1 includes investments that are insured or registered securities held by the State or its agent in the State's name. **Category 2** includes uninsured and unregistered investments in which the securities are held by the counterparty's trust department or agent in the State's name. **Category 3** includes uninsured and unregistered investments in which the securities are held by the counterparty, or by its trust department or agent, but not in the State's name. None of the State's cash equivalents or investments are classified in Category 3 at fiscal year-end.

(2) The State invests in certain types of securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks (convertible equity securities), and mortgage-backed securities in addition to other long term investment securities to provide a diversified investment portfolio and an overall competitive rate of return. All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments.

Asset-backed securities represent debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc.. These securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar non asset-backed securities.

Variable-rate instruments pay a variable rate of interest until maturity. The variable rate floats with the 91 day treasury bill or the London Interbank Offered Rate (LIBOR). Variable-rate instruments have credit risk identical to similar fixed-rate securities; however, their market risk (income) is more sensitive to interest rate changes. Their market risk (value/price) may be less volatile than fixed-rate securities because their value will usually remain near par as a result of interest rates being periodically reset to maintain a current market yield.

Zero Coupon Bonds and Preferred Stocks include securities whose structure differs from the basic convertible security structure. These include PENs (Participating Equity Notes), PERCs (Preferred Equity Redemption Coupons), DECS (Dividend Enhanced Common Stock) and ACES (Automatically Convertible Equity Securities). PENs are corporate bonds offering the investor a choice at maturity of receiving the greater of the bond's par value or the value of a preset ratio of an established index. PERCs reflect an investor's acceptance of a cap in a security's price appreciation in exchange for a higher income yield. DECS and ACES are issued, and traded, at a premium to the underlying common stock in exchange for a higher dividend yield. The State's investment policy requires convertible debt and zero coupon bonds to be rated at a specific level at time of purchase as a credit risk control measure. These securities carry market risk and the potential for change in market value. Market value changes may occur due to interest rate changes, declines in the value of underlying common stock, or the triggering of a call feature and other factors.

Mortgage-backed securities reflect participation in a pool of residential mortgages. These securities include structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). Some REMICs are principal-only strips (POS) and interest-only strips (IOS). These securities are based on the cash flows from the principal and interest payments on underlying mortgages, respectively. These securities have credit risk as measured by major credit rating services. The State's investment policy requires these investments to be rated "investment grade" at the time of purchase. Market risk for these securities is caused by changes in the price or principal value of the securities due to changes in interest rates.

With the exception of the S & A Restaurants Corp., there are no legal risks, as of June 30, 1996, that the State is aware of regarding any investments. As of June 30, 1996, S & A Restaurants Corp. was restructuring its debt. Due to possible bankruptcy if the restructuring was not completed, the State discontinued accruing income on this security effective February 15, 1996. On August 1, 1996, the company completed its corporate debt restructuring. On August 15, 1996, the Board of Investments received interest due for February 15 through August 14, 1996. Given the restructuring and receipt of the August 15, 1996 payment, the state permitted the security to accrue income. At amortized cost, the Trust Fund Bond Pool (TFBP) and Retirement Fund Bond Pool (RFBP) own \$4,000,000 and \$11,000,000, respectively, of S & A Restaurants Corp., 11.15% First Mortgage Bonds, maturing August 15, 1998. These bonds are backed by U.S. government securities.

As of June 30, 1995, the El Paso Electric Company, presented a legal risk to the State. This legal risk was reported in the June 30, 1995, CAFR financial statements. El Paso Electric Company declared bankruptcy in January 1992. Per the January 1992 bankruptcy order, the company paid its monthly interest payments. In 1995, the company began merger negotiations with another company. In June 1995, these negotiations ceased. Effective June 1995, the First Mortgage bond holders were notified the June monthly interest payment and subsequent interest payments would not be paid until further notice. On September 8, 1995, the Board received \$35,164, in interest for June 1 through August 31, 1995. The June 30, 1995, par value, plus accrued interest and premium, was paid in full on February 26, 1996.

(3) Under a security lending agreement with the State's agent, all of the State's investments may be loaned. The agent must maintain collateral equal to 102% of the market value of the securities on loan. The State retains all rights and risks of ownership for the loaned securities.

B. Cash/Cash Equivalents

(1) Cash Deposits - The State requires collateralization based on the average daily bank balance in the depository bank holding the main State bank account. For other depository banks, State statutes require collateralization at 50% of the bank balance. The Cash Deposit amounts include both Primary Government and Component Unit deposits.

TABLE 1 - CASH DEPOSITS (In Thousands)

<u>Risk Category</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Fund</u>
1 Insured (FDIC)	\$ 1,228	\$ 1,228	Various
Collateral held by State/State's agent	16,389	16,389	Various
2	9,652	9,652	Various
3	13,580	13,580	Various
Uncategorized:			
Undeposited Cash	368		
Cash in U.S. Treasury	111,965		
Less: Outstanding Warrants	<u>(45,931)</u>		
TOTAL CASH DEPOSITS	<u>\$107,251</u>		

As of June 30, 1996, the carrying amount of deposits for component units was \$42,923,430 and the bank balance was \$42,678,986. Of the bank balance, \$42,657,908 was fully insured or collateralized with securities held by the component units or their agent's in the unit's name and \$21,078 was collateralized with securities held by the pledging institution's trust department or its agent in the respective component unit's name.

(2) Cash Equivalents - consists of cash in the State Treasury invested by individual funds in the Short Term Investment Pool (STIP) and the Treasurer's Cash Pool in identifiable securities and investments considered to be cash equivalents. Cash equivalents, except for the Housing Authority in the Component Unit Proprietary Fund, generally are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the state treasurer, other cash deposits, and mortgage payments in transit. Cash equivalents may be under the control of the Board of Investments (the Board) or other agencies, as allowed by law.

TABLE 2 - CASH EQUIVALENTS (In Thousands)

	<u>Risk Categories</u>		<u>Carrying Amount</u>	<u>Market Value</u>	<u>Fund</u>
	<u>1</u>	<u>2*</u>			
Asset-Backed Securities	\$ 234,352	\$ -	\$ 234,352	\$ 234,329	Various
Bankers' Acceptances	59,929	-	59,929	59,920	Various
Commercial Paper	35,550	-	35,550	35,545	Various
Corporate Obligations	173,248	-	173,248	172,891	Various
Government Securities	253,878	177,124	431,002	429,155	Various
Repurchase Agreements	100,000	-	100,000	100,000	Various
Variable-Rate	311,174	-	311,174	311,229	Various
Direct Investments:					
Money Markets			45,678	45,678	Various
Guaranteed Investment Contracts			4,439	4,439	Various
Other			<u>6</u>	<u>6</u>	Various
TOTAL CASH EQUIVALENTS			<u>\$1,395,378</u>	<u>\$1,393,192</u>	

* At June 30, 1996, these securities with a market value of \$175,993,091 were loaned under a security lending agreement with the State's agent.

As of June 30, 1996, local governments invested \$299,714,087 in the STIP.

As of June 30, 1996, component units of the State of Montana had investments in cash equivalents with a book value and market value of \$209,110,851.

C. Equity in Pooled Investments - Consists of investments held by pooled investment funds. The Montana Common Stock Pool (MONTCOMP), Trust Fund Bond Pool (TFBP), and Retirement Funds Bond Pool (RFBP) were created to allow qualifying funds to participate in diversified investment pools. Participation is restricted to expendable trust, nonexpendable trust, pension trust and higher education endowment and trust funds. Purchases are subject to statutory restrictions for quality and size of holdings.

TABLE 3 - EQUITY IN POOLED INVESTMENTS (In Thousands)

	Risk Categories		Carrying	Market
	1	2*	Amount	Value
MONTCOMP:				
Corporate Stocks	\$ 804,353	\$ 118,759	\$ 923,112	\$ 1,236,626
Preferred Stocks	16,638	3,004	19,642	19,446
Convertible Bonds	17,155	901	18,056	17,953
Zero Coupon Bonds	6,964	-	6,964	6,730
TFBP:				
Corporate Asset Backed	25,905	-	25,905	25,799
Corporate Stocks	449,126	8,821	457,947	467,026
US Govt. Mortgage Backed	50,404	-	50,404	49,759
US Govt. Direct	42,215	163,661	205,876	207,458
Yankee Bonds	53,088	2,070	55,158	57,798
State and Local Government	8,947	-	8,947	8,901
RFBP:				
Corporate Asset Backed	91,334	-	91,334	91,511
Corporate Stocks	819,745	15,367	835,112	848,319
US Govt. Mortgage Backed	115,757	-	115,757	117,302
US Govt. Direct	144,520	338,836	483,356	485,182
Yankee Bonds	107,466	1,276	108,742	111,685
TOTAL EQUITY IN				
POOLED INVESTMENTS	\$2,753,617	\$652,695	\$3,406,312	\$3,751,495

* At June 30, 1996, these securities with a market value of \$661,674,291 were on loan under a security lending agreement with the State's agent.

As of June 30, 1996, component units of the State of Montana had equity in pooled investments with a book value of \$995,304,738 and a market value of \$1,307,012,830.

D. Investments - Long-term investments are primarily administered by three state agencies. Article 8 of Montana's Constitution, with supporting statutes, authorizes the Board of Investments to manage the State's unified investment program. State law specifies which agencies may hold investments outside the administration of the Board. The Board, as the State's primary administrator of long-term investments, actively manages 75% of those investments; the Board of Housing, 14%; and the Department of Administration's Personnel Division, 10% for the State's Deferred Compensation Plan. Additionally, the Higher Education Units manage 1% of total investments for bond related activities.

The Board must employ the "Prudent Expert Rule" in managing the State's investment portfolio. The funds carry equity securities at cost and debt securities at amortized cost. Deferred compensation plan and pension plan investments are carried at market.

The Board of Investments continued to invest in leveraged buyouts and venture capital in fiscal year 1996. The Board's total leveraged buyout commitment, administered by Kohlberg, Kravis, Roberts and Companies, amounts to \$50,000,000. The leveraged buyout invested balance for the pension funds amounted to \$38,869,130 on June 30, 1996.

For the purpose of portfolio diversification, the Board has committed \$27,618,000 for venture capital investments administered by Brinson Partners. The June 30, 1996, venture capital invested balance totaled \$7,591,498 for the Teachers' Retirement and \$9,278,498 for the Public Employees' Retirement systems.

In September 1991, the board committed \$5,000,000 per year for the next five years to invest in mortgage servicing rights. As of June 30, 1996, the invested balance in America's Mortgage Servicing, Inc., totaled \$450,000 for the Teachers' Retirement and \$550,000 for the Public Employees' Retirement systems.

TABLE 4 - INVESTMENTS (RISK CATEGORIES) (In Thousands)

<u>Security Type</u>	<u>Categories</u>		<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>		
PRIMARY GOVERNMENT				
Corporate Bonds	\$ 7,275	\$ 99	\$ 7,374	\$ 7,426
Corporate Asset-Backed	6,974	-	6,974	6,936
Government Securities	23,413	34,526	57,939	69,608
Government Mortgage-Backed	-	-	-	-
Other	700	-	700	734
Total	<u>\$ 38,362</u>	<u>\$ 34,625</u>	<u>\$ 72,987</u>	<u>\$ 84,704</u>

<u>Security Type</u>	<u>Categories</u>		<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>		
COMPONENT UNITS				
Corporate Bonds	\$ 158,372	\$ 7,582	\$ 165,954	\$ 166,776
Corporate Asset-Backed	64,208	-	64,208	63,892
Government Securities	67,816	238,490	306,306	295,125
Government Mortgage-Backed	41,651	-	41,651	41,262
Other	9,437	68,369	77,806	78,568
Total	<u>341,484</u>	<u>314,441</u>	<u>655,925</u>	<u>645,623</u>
TOTAL	<u>\$ 379,846</u>	<u>\$ 349,066</u>	<u>\$ 728,912</u>	<u>\$ 730,327</u>

Direct Investments:

PRIMARY GOVERNMENT

Real Estate		\$ 2,432	\$ 2,519
Commercial Loans		108,447	108,287
Mortgages		84,722	81,909
Other		32,761	46,279
Deferred Compensation		122,528	122,528
Total		<u>\$ 350,890</u>	<u>\$ 361,522</u>

COMPONENT UNITS

Real Estate		\$ 2,432	\$ 2,519
Commercial Loans		2,891	2,779
Mortgages		59,337	57,367
Other		24,686	34,256
Total		<u>89,346</u>	<u>96,921</u>
TOTAL INVESTMENTS		<u>\$1,169,148</u>	<u>\$1,188,770</u>

At June 30, 1996, the Board of Investments had securities in Risk Category 2 with a market value of \$34,714,703 and \$153,686,372 for the primary government and component units, respectively, on loan under a security lending agreement with the State's agent.

5. FIXED ASSETS

Fixed asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure fixed assets and interest expenditures for general fixed assets are not capitalized. Infrastructure assets of primary government and component unit proprietary activities are capitalized. Interest incurred during the construction of fixed assets for proprietary funds and higher education units is capitalized.

Fixed assets are not depreciated in the General Fixed Asset Account Group. Purchases of such assets are recorded as expenditures in the appropriate governmental fund. Fixed assets in Proprietary, Nonexpendable Trust and Pension Trust Funds are accounted for within their respective funds and are depreciated. Expendable Trust Funds do not report fixed assets within their funds because the assets are purchased by other funds. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 20 years for improvements and 3 to 10 years for equipment. Fixed assets and intangible assets for Higher Education units are accounted for in the Investment in Plant Fund and are not depreciated.

Intrafund transfers of fixed assets have not been eliminated in the table below except for the effects of transfers resulting from agency reorganizations in which entire programs and the corresponding fixed assets were transferred to new agencies created from the consolidation of several previously existing agencies. Eliminations due to agency reorganizations were made only for those transfers in which the fixed assets were moved within the same function or activity. Eliminations were not made for transfers resulting from reorganizations in which the fixed assets were moved to a new function or activity. Transfers between functions in the General Fixed Asset Account Group amounted to Land - \$1,091,203, Buildings - \$47,692,448 and Equipment - \$2,629,066.

Changes in fixed asset balances for the fiscal year ended June 30, 1996, are reflected in the following table (in thousands):

PRIMARY GOVERNMENT				
	Balance July 1, 1995	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 1996
PROPRIETARY FUNDS				
Land	\$ 1,036	\$ 102	\$ -	\$ 1,138
Buildings/Improvements	4,487	1,030	78	5,439
Equipment	130,747	12,534	12,007	131,274
Other Fixed Assets	249	1,148	-	1,397
Construction in Progress	448	2,715	2,810	353
Subtotal/Total	<u>136,967</u>	<u>\$ 17,529</u>	<u>\$ 14,895</u>	<u>139,601</u>
Accumulated Depreciation	<u>(76,741)</u>			<u>(76,992)</u>
Total	<u>\$ 60,226</u>			<u>\$ 62,609</u>

	<u>Balance July 1, 1995</u>	<u>Additions/ Transfers</u>	<u>Deletions/ Transfers</u>	<u>Balance June 30, 1996</u>
<u>NONEXPENDABLE TRUST FUNDS</u>				
Land	<u>\$ 49,399</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,399</u>
<u>PENSION TRUST FUNDS</u>				
Land	\$ 25	\$ -	\$ -	\$ 25
Buildings/Improvements	277	-	-	277
Equipment	105	47	19	133
Subtotal/Total	<u>407</u>	<u>\$ 47</u>	<u>\$ 19</u>	<u>435</u>
Accumulated Depreciation	<u>(184)</u>			<u>(191)</u>
Total	<u>\$ 223</u>			<u>\$ 244</u>
<u>GENERAL FIXED ASSETS ACCOUNT GROUP</u>				
Land	\$ 57,826	\$ 2,967	\$ 1,720	\$ 59,073
Buildings/Improvements	250,856	102,690	60,184	293,362
Equipment	92,468	26,596	13,069	105,995
Other Fixed Assets	44,356	213	131	44,438
Construction in Progress	<u>7,257</u>	<u>1,126</u>	<u>600</u>	<u>7,783</u>
Total	<u>\$ 452,763</u>	<u>\$133,592</u>	<u>\$ 75,704</u>	<u>\$ 510,651</u>
<u>COMPONENT UNITS</u>				
<u>PROPRIETARY FUNDS</u>				
Equipment	\$ 3,468	<u>\$ 355</u>	<u>\$ 19</u>	\$ 3,804
Accumulated Depreciation	<u>(1,240)</u>			<u>(1,736)</u>
Total	<u>\$ 2,228</u>			<u>\$ 2,068</u>
<u>PENSION TRUST FUND</u>				
Land	\$ 35	\$ -	\$ -	\$ 35
Buildings/Improvements	158	-	-	158
Equipment	170	39	1	208
Subtotal/Total	<u>363</u>	<u>\$ 39</u>	<u>\$ 1</u>	<u>401</u>
Accumulated Depreciation	<u>(191)</u>			<u>(214)</u>
Total	<u>\$ 172</u>			<u>\$ 187</u>
<u>HIGHER EDUCATION FUNDS</u>				
Land	\$ 12,397	\$ 896	\$ -	\$ 13,293
Buildings/Improvements	298,232	8,202	2,701	303,733
Equipment	118,729	17,848	9,301	127,276
Other Fixed Assets	70,549	4,377	777	74,149
Construction in Progress	51,579	29,626	334	80,871
Intangible Assets	<u>2,357</u>	<u>264</u>	<u>374</u>	<u>2,247</u>
Total	<u>\$ 553,843</u>	<u>\$ 61,213</u>	<u>\$ 13,487</u>	<u>\$ 601,569</u>

6. RETIREMENT SYSTEMS

DEFINED CONTRIBUTION PLAN

Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, Chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP participate in the Teachers' Retirement System, a defined benefit plan discussed in the next section. Beginning July 1, 1993, membership in the ORP is mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These moneys are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. Approximately 1,431 employees are members of the ORP. Required employee contributions are 7.044% of salary and required employer contributions are 4.956% of salary for a total of 12% of salary contributed to the ORP.

	TIAA-CREF (in thousands)
Covered Payroll	\$ 48,236
Total Payroll	190,527
Employer Contributions	\$ 2,391
Percent of Covered Payroll	4.956%
Employee Contributions	\$ 3,398
Percent of Covered Payroll	7.044%

DEFINED BENEFIT PLANS

A. General

The Public Employees' Retirement Division administers eight defined benefit plans - Public Employees' Retirement System (PERS), Highway Patrol Officers' Retirement System (HPORS), Judges' Retirement System (JRS), Game Wardens' Retirement System (GWRS), Sheriffs' Retirement System (SRS), Municipal Police Officers' Retirement System (MPORS), Firefighters' Unified Retirement System (FURS), and Volunteer Firefighters' Compensation Act (VFCA). The division prepares a publicly issued financial report that includes financial statements and required supplementary information for PERS, HPORS, JRS, GWRS, SRS, MPORS, FURS, and VFCA. That report may be obtained by writing to the Department of Administration, Public Employees' Retirement Division, P.O. Box 200131, Helena, Montana 59620-0131.

The Teachers' Retirement Division administers one defined benefit plan - Teachers' Retirement System (TRS). The publicly issued financial report that includes financial statements and required supplementary information for TRS may be obtained by writing to the Department of Administration, Teachers' Retirement Division, P.O. Box 200139, Helena, Montana 59620-0139.

PERS, HPORS, JRS, GWRS, SRS, MPORS, FURS and VFCA are considered part of the state of Montana's financial reporting entity and are included in the accompanying financial statements as pension trust funds in the trust and agency fund type.

TRS is considered part of the state of Montana's financial reporting entity and is included in the accompanying financial statements as a discretely presented component unit Pension Trust Fund.

A summary of government employers participating in PERS, SRS, MPORS, FURS and TRS by employer type at June 30, 1996 follows:

Retirement System					
	PERS	SRS	MPORS	FURS	TRS
Employers					
State Agencies	38				6
Counties	55	55			
Cities/Towns	86		19	14	
Colleges/Universities	6				13
School Districts	232				396
Other	75				
Total	492	55	19	14	415

B. Plan Descriptions

The State contributes to and/or administers eight retirement systems and one pension plan in four categories: (1) the State as the single employer; (2) the State as an employer contributor to cost-sharing multiple-employer plans; (3) the State as a nonemployer contributor to cost-sharing multiple employer plans; and (4) the State as a nonemployer contributor.

The number of years required to obtain vested rights varies among the systems. All systems provide early retirement options, death benefits, termination (except VFCA) and disability benefits. All systems (except VFCA) provide post-retirement benefits. Post-retirement benefits for the GWRS, PERS, TRS and SRS are based on investment yield, retirees' total years of service, age and option chosen at the time of retirement. Post-retirement adjustments are made only in years when funding is available and do not increase the unfunded liability of the system. The post-retirement benefits of each of the remaining systems are included in the plan descriptions below.

The funding policies for each system provide for periodic employer and employee contributions (except VFCA) at rates specified by state law; contribution requirements are not actuarially determined. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry age normal funding method, with both normal cost and amortization of the unfunded accrued liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost in addition to amortizing the unfunded liability over a period not to exceed 40 years.

(1) State as the Single Employer

HPORS - Highway Patrol Officers' Retirement System - This system, established in 1971 and governed by Title 19, Chapters 2 & 6 of the Montana Code Annotated (MCA), provides retirement benefits for all uniformed members of the Montana Highway Patrol, including supervisory personnel. Member and State contributions are 9% and 36.28%, respectively, of total salaries of active highway patrol officers. For members hired on or before July 1, 1985, there is no minimum age, but minimum service is 20 years for benefit eligibility. A member hired after July 1, 1985, must be 50 years old and have 20 years of creditable service for benefit eligibility. The service retirement benefit is based on a formula of 2.5% times the number of years of service times the final average salary. Post-retirement benefits are in the form of minimum benefit supplements which ensure the retiree's benefit is no less than 2% of a probationary highway patrol officer's salary for each year of the retiree's service, with the annual increase not to exceed 5% of the benefit. Members retired prior to July 1, 1991, who are at least age 55 and have been retired a minimum of five years, will also receive a lump sum payment. This lump sum payment is funded by a registration fee of 25 cents per vehicle license. Rights are vested after five years of service.

JRS - Judges' Retirement System - This system, established in 1967 and governed by Title 19, Chapters 2 & 5 of the MCA, provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge. Members contribute 7% of their salary and the State contributes 6% of active judges' salaries, district court fees equal to 34.71% of members' salaries, and 25% of Supreme Court fees. For benefit eligibility, minimum service is 5 years and minimum age is 65. The monthly retirement benefit formula is $3\frac{1}{3}\%$ times the number of years of service (to a maximum of 15 years) times $\frac{1}{12}$ the current annual salary, plus 1.785% of such salary for each year of service after 15 years. JRS retirees receive increases in benefits at the same rate as salary increases are granted to active members through legislative action. Rights are vested after five years of creditable service. The current actuarial valuation indicates a material increase in retirees which increases the inactive liability resulting in a longer period of time being required to fund that liability. During the year ended June 30, 1996, actual contributions did not cover the year's normal cost.

GWRS - Game Wardens' Retirement System - This system, established in 1963 and governed by Title 19, Chapters 2 & 8 of the MCA, provides retirement services for all persons employed as a game warden, including all supervisory personnel. The member contributes 7.9% of salary and the State contributes 8.15% of active game wardens' salaries, plus all collections from fines and forfeited bonds related to fish and game law violations. For benefit eligibility, minimum age is 50 and minimum years of service are 20. A member may retire with ten years of service at age 55. The yearly retirement benefit formula is 2% times the number of years of service times the final average salary. Investment earnings in excess of 8%, if any, are used to provide post-retirement increases. Rights are vested after ten years of service.

(2) State as an Employer Contributor to a Cost-Sharing Multiple-Employer

PERS - Public Employees' Retirement System - This mandatory system, established in 1945 and governed by Title 19, Chapters 2 & 3 of the MCA, provides retirement services to substantially all public employees not covered by another public system. The contribution rate is 6.70% of gross wages for both employees and employers. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking the greater of: (1) $\frac{1}{56}$ times the number of years of service times the final average salary times any early retirement reduction if necessary or (2) a monthly annuity that is the actuarial equivalent of twice the member's accumulated regular contributions. Investment earnings in excess of 8%, if any, are used to provide post-retirement increases based on members' years of service, age and option chosen at the time of retirement. Members' rights are vested after 5 years of service.

TRS - Teachers' Retirement System - This mandatory system, established in 1937 and governed by Title 19, Chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system. Member and employer contributions are 7.044% and 7.47%, respectively, of gross salaries. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for annual benefits is $\frac{1}{60}$ times creditable service years times the final average compensation. Rights are vested after five years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits.

SRS - Sheriffs' Retirement System - This system, established in 1974 and governed by Title 19, Chapters 2 & 7 of the MCA, covers all sheriffs, as well as all State Department of Justice investigators hired after July 1, 1993. The member contribution is 7.865% of salary; the employer contribution is 8.535% of salary. Minimum years of service for normal service retirement eligibility are 20. The service retirement benefit is calculated at 2.0834% of the final average salary for each year of creditable service. Reduced benefits for early retirement may be taken with a minimum of 15 years of service and a minimum age of 50. Investment earnings in excess of 8%, if any, are used to provide post-employment increases. Rights are vested after 5 years of service if involuntarily terminated, and after 15 years if termination is voluntary.

(3) State as a Nonemployer Contributor to a Cost-Sharing Multiple-Employer

MPORS - Municipal Police Officers' Retirement System - The system, established in 1975 and governed by Title 19, Chapters 2 & 9 of the MCA, covers all municipal police officers of cities covered by the plan. The member contribution is 7.8% of salary for members employed prior to July 1, 1975; 9% of salary for members employed after June 30, 1975, and prior to July 1, 1979; and 10.5% of salary for members employed after June 30, 1979. City contributions are 14.36% of active police officers' salaries. The State contributes 15.66% of active police officers' salaries. The State's contribution is funded from the premium tax on motor vehicle property and casualty insurance policies. Minimum years of service are 10 for benefit eligibility at age 50, or 20 years of service at any age. The service retirement benefit is 2.5% times the number of years of service times the final average salary. The post-retirement benefit is the amount needed to ensure that the retiree's benefit is no less than 50% of the base salary of a newly confirmed police officer. These post-retirement benefits are paid directly by the insurance premium tax fund and are in addition to the actuarially determined contributions to the system. Rights are vested after ten years of service.

FURS - Firefighters' Unified Retirement System - This system, established in 1981 and governed by Title 19, Chapters 2 & 13 of the MCA, provides retirement benefits for all paid firefighters. The member contribution is 7.8% of base compensation, and city contributions are 14.36% of total annual compensation. The State contribution is 24.21% of total annual compensation for all firefighters and is paid out of the insurance premium tax fund. Minimum age is 50 and minimum service is 10 years for benefit eligibility. For members hired prior to July 1, 1981, with at least 20 years of service, the monthly service retirement benefit is equal to $\frac{1}{2}$ of the final monthly compensation received plus an additional 2% for each year in excess of 20 years. Members hired on or after July 1, 1981 receive a service retirement benefit equal to 2% of final average salary for each year of service. Post-retirement benefits require that each retiree receive at least 50% of the salary paid a newly confirmed active firefighter. The cost of this adjustment for members retired prior to July 1, 1973 and for members hired on or after July 1, 1981 is paid from the fire insurance premium tax fund, provided funds are available. Rights are vested after ten years of service.

(4) State as a Nonemployer Contributor

VFCA - Volunteer Firefighters' Compensation Act - This compensation program, established in 1965 and governed by Title 19, Chapter 17 of the MCA, provides medical benefits and pension, disability and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the state. The State contribution is 5% of fire insurance premium taxes collected. This retirement system is required by law to be fully funded and cannot pay benefits unless money is available. Rights are vested after 10 years of qualified service.

C. Summary of Significant Accounting Policies

The defined benefit plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

D. Method Used to Value Investments

The Montana Board of Investments (BOI) manages the investments for the retirement systems. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various pricing services. The retirement systems have no investments of any commercial or industrial organization whose market value equals 5 percent or more of the retirement systems' net assets available for benefits.

E. Long-Term Contracts for Contributions

The Public Employees' Retirement System has outstanding contributions for two early retirement programs:

The 1993 Montana Legislature enacted House Bill 517--Retirement Incentive Program (RIP) providing PERS members (eligible for a service retirement) an incentive to terminate between June 25, 1993 and December 31, 1993. Local government employers participated through election on or before June 1, 1993. The employer purchased, on the member's behalf, up to three years of "1-for-5" additional service for any retirement eligible member who terminated employment during the window. A total of 898 members took advantage of the program (630 from 32 state agencies, 95 from 6 universities, and 173 from 48 local government agencies).

The 1995 Montana Legislature provided a new provision of the Employee Protection Act (HB 490) allowing state employees (eligible for a service retirement) whose positions have been eliminated on or before June 30, 1997 to have their employer purchase up to three years of "1-for-5" additional service. As of June 30, 1996, 50 employees have taken advantage of this provision.

The employer has up to 10 years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received (including interest) during fiscal year 1996 were \$590,937. Fiscal Year 1996 outstanding balances were \$834,735 (HB 517), and \$50,403 (HB 490).

F. Actuarial Data

Actuarial valuations are performed every two years. Hendrickson, Miller & Associates Inc., Helena, MT, prepared the actuary reports for the retirement systems, excluding TRS. Milliman & Robertson, Inc., of Seattle, WA., performed the actuarial valuation for TRS.

G. Net Pension Obligation

Judges' Retirement System (JRS) net pension obligation (NPO) for fiscal year 1996 (in thousands):

Annual required contribution	\$ 1,165
Interest on NPO	192
Adjustment to the annual required contribution	<u>(265)</u>
Annual pension cost	1,092
Contribution made	<u>(752)</u>
Increase in NPO	340
NPO beginning of year	<u>2,398</u>
NPO end of year	<u>\$ 2,738</u>

H. Funding Policy and Annual Pension Cost

The following tables provide information concerning funding policies and annual pension costs (in thousands):

Single Employer Systems			
	HPORS	JRS	GWRs
Annual pension cost	\$ 3,163	\$ 1,092	\$ 457
Contributions			
Employer	\$ 1,632	\$ 174	\$ 230
Employee	621	203	227
License and Registration fees	910	-	-
Court fee	-	614	-
Actuarial valuation date	7/01/96	7/01/96	7/01/96
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	20.4	15.82	None
Asset valuation method	4 year smoothed market	4 year smoothed market	4 year smoothed market
Actuarial Assumptions:			
Investment rate of return	8.00%	8.00%	8.00%
Projected salary increases (includes inflation factor)	6.00%	6.00%	6.00%
Postretirement benefit increases	None	None	None

Single Employer Systems			
Year Ending	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Obligation
HPORS			
06/30/96	\$ 3,163	100%	NONE
JRS			
06/30/96	\$ 1,092	90.75%	\$2,738
GWRs			
06/30/96	\$ 457	100%	NONE

Multiple Employer Systems			
Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
PERS			
06/30/94	\$ 88,957	100%	NONE
06/30/95	80,653	100%	NONE
06/30/96	85,405	100%	NONE
MPORS			
06/30/94	\$ 5,404	100%	NONE
06/30/95	6,382	100%	NONE
06/30/96	6,388	100%	NONE
FURS			
06/30/94	\$ 5,099	100%	NONE
06/30/95	5,605	100%	NONE
06/30/96	6,118	100%	NONE
SRS			
06/30/94	\$ 2,396	100%	NONE
06/30/95	2,599	100%	NONE
06/30/96	3,096	100%	NONE
TRS			
06/30/94	\$ 77,913	100%	NONE
06/30/95	76,855	100%	NONE
06/30/96	79,801	100%	NONE

I. Schedules of Funding Progress

Single Employer Systems						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AA L) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
HPORS						
07/01/92	\$33,711	\$57,447	\$23,736	58.68%	\$5,575	425.74%
07/01/94	40,466	63,327	22,861	63.90%	5,650	404.60%
07/01/96	47,325	67,709	20,384	69.90%	6,242	326.57%
JRS						
07/01/92	\$17,354	\$20,432	\$ 3,078	84.94%	\$2,502	123.00%
07/01/94	21,281	23,171	1,890	91.84%	2,777	68.06%
07/01/96	24,944	27,723	2,779	89.98%	2,907	95.61%
GWRS						
07/01/92	\$13,925	\$14,608	\$ 682	95.33%	\$2,466	27.68%
07/01/94	16,297	16,389	92	99.44%	2,494	3.70%
07/01/96	18,160	17,325	-	104.82%	2,762	-

Multiple Employer Systems						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
PERS						
07/01/92	\$1,133,202	\$1,410,298	\$277,097	80.35%	\$548,153	50.55%
07/01/94	1,366,864	1,625,720	258,856	84.08%	572,974	45.18%
07/01/96	1,629,706	1,826,207	196,500	89.24%	608,592	32.29%
MPORS						
07/01/92	\$ 44,048	\$ 79,398	\$ 35,351	55.48%	\$ 11,403	310.02%
07/01/94	56,209	90,507	34,298	62.10%	13,395	256.05%
07/01/96	70,068	105,664	35,596	66.31%	15,828	224.90%
FURS						
07/01/92	\$ 44,159	\$ 100,607	\$ 56,449	43.89%	\$ 10,883	518.68%
07/01/94	54,647	113,153	58,506	48.29%	12,424	470.90%
07/01/96	67,745	131,111	63,366	51.67%	13,783	459.75%
SRS						
07/01/92	\$ 44,114	\$ 34,260	-	128.76%	\$ 13,688	-
07/01/94	55,220	42,978	-	128.48%	15,869	-
07/01/96	68,647	52,751	-	130.13%	17,890	-
TRS						
07/01/92	\$ 954,542	\$1,533,883	\$579,341	62.2%	\$465,063	124.5%
07/01/94	1,157,512	1,712,933	555,421	67.6%	472,860	117.4%
07/01/96	1,376,716	1,939,569	562,853	71.0%	501,466	112.3%

Nonemployer Contributor						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AA L) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
VFCA						
07/01/93	\$ 8,760	\$15,211	\$6,451	57.59%	N/A	N/A
07/01/96	11,504	16,636	5,132	69.15%	N/A	N/A

7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Systems, the following postemployment benefits are provided:

The State provides 18 to 36 months optional postemployment health care benefits in accordance with Public Law 99-272, known as the Federal Consolidated Omnibus Reconciliation Act (COBRA) to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are receiving employee health care benefits at the time they discontinue State employment and (2) dependents who lose dependent eligibility. At June 30, 1996, 114 individuals were receiving these benefits.

In accordance with section 2-18-704, MCA, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement system (See Note 6). Administratively established premiums vary between \$97 and \$306 per month depending on the medical plan selected, family coverage and Medicare eligibility. The State acts as secondary payor for Medicare-eligible claimants. As of June 30, 1996, 2,790 retirees were receiving health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-payments of the members' selected medical plan). Dental claims are reimbursed at 50% to 100% depending on the services provided. The State funds claims on a pay-as-you-go basis. During the fiscal year, expenditures of \$9,562,328 were recognized for postemployment health care benefits. Premium contributions received from former employees amounted to \$7,142,284 leaving \$2,420,044 of claims in excess of premium revenue that was paid by the State.

In accordance with 2-18-702, MCA, the Montana University System (MUS) provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS), or an annuity under the Optional Retirement Plan (ORP). Spouses, unmarried dependent children, and surviving spouses are also eligible. Administratively established premiums vary between \$120 and \$338 per month and are revised annually. Medicare eligible plan members are assumed to be Medicare-insured. After an annual \$250 deductible, MUS reimburses 80% of the first \$3,000 in medical claims and 100% thereafter. The plan automatically reduces claim reimbursements for members eligible for Medicare even if the member is not enrolled in Medicare. As of June 1996, 1,193 retirees are enrolled in the MUS plan. Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 1996, estimated expenditures of \$2,636,934 were recognized for postemployment health care benefits. Of this amount, \$2,342,793, was covered by premiums paid by retirees and \$294,141 was paid by the MUS.

8. DEFERRED COMPENSATION PLAN

Since 1976, the State of Montana has offered a deferred compensation plan which allows employees to set aside a portion of their salary each payday towards retirement while deferring the State and Federal income taxes until future years. The payroll deferrals are invested with Nationwide Insurance. All employees of the State are eligible to participate. The plan operates under the sanction of both State and Federal laws (Title 19, Chapter 50, MCA, and Section 457 of the Internal Revenue Code). The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject only to the claims of the State's general creditors. In the past, the plan assets have been used for no purpose other than to pay benefits. The State believes it is unlikely it will use the assets to satisfy the claims of general creditors in the future because of the contractual arrangement with Nationwide Insurance and the State's obligation to participants for their account balance. State statute provides that the State and its political subdivisions are not liable for any investment losses incurred by any eligible deferred compensation plan. However, the State does have the duty of care required of an ordinary prudent investor. As of June 30, 1996, the net assets of the plan available for benefits totaled \$122,607 million.

9. RISK MANAGEMENT

There are two Primary Government public entity risk pools and two Component Unit public entity risk pools that are reported within the Enterprise Fund Type: Primary Government pools include Hail Insurance and Subsequent Injury Funds; Component Unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are three Primary Government Other Than Public Entity Risk Pools reported within the Internal Service Fund Type: Group Employees Comprehensive Medical and Dental Plan, Montana University System (MUS) Group Benefits Plan and Property and Casualty Insurance Plans. In all of these funds there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage. None of these funds have acquisition costs; therefore, no cost is amortized for the period. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at amortized cost. Premiums and discounts are amortized using the straight-line method over the life of the securities.

A. Public Entity Risk Pools

(1) Hail Insurance - Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the hail insurance program. The Hail Insurance program issued 2,337 policies during the 1996 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a refund. Anticipated investment income is considered in computing a premium deficiency of which there is none.

A claim must be submitted to the State Board of Hail Insurance within fourteen days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain which exceeds 5% destruction by hail.

The fund recorded a liability of \$618,297 based on claims submitted for losses through June 30, 1996. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) Subsequent Injury - This fund provides benefits to workers certified as vocationally handicapped who are injured on the job and entitled to benefits under the Workers' Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104 week time period. In Montana, there are 1,947 individuals certified as vocationally handicapped.

Workers' compensation insurance premium experience modification factors are influenced by the 2 year limitation and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring the certified vocationally handicapped.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed an amount of up to 5% of each insurer's compensation payments for the previous fiscal year. An estimated liability is recorded based on a projected cost (case-by-case) analysis of each injured, certified, vocationally handicapped worker. As of June 30, 1996, the amount of this liability is estimated to be \$1,022,177.

(3) State Compensation Insurance (New Fund) - Liability coverage to employers for injured employees who are insured under the Workers' Compensation and Occupational Disease Acts of Montana and workers' compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund must insure any employer who desires coverage. At fiscal year-end, approximately 25,403 employers were insured with the New Fund. Montana state governmental agencies must obtain their workers' compensation coverage through the New Fund. Anticipated investment income is considered for computing a premium deficiency and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast, a Towers Perrin company, as of June 30, 1996, has estimated liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. At June 30, 1996, \$402,714,180 of unpaid claims and claim adjustment expenses are presented at their net present value of \$294,477,691. These claims are discounted at an annual rate of 5.75%.

The New Fund uses reinsurance agreements to reduce its exposure to large losses. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the fund as direct insurer. The New Fund did not deduct any claim liabilities related to potential reinsurance recoverable. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis; all liability of the New Fund is terminated.

Statute requires the New Fund set premiums at least annually at a level sufficient to ensure adequate funding of the insurance program during the period the rates will be in effect.

(4) State Compensation Insurance (Old Fund) - The liability and payment of workers' compensation claims for incidents occurring before July 1, 1990, are reported in the Old Fund. Funding for claim payments is provided by old fund liability taxes (OFLT) imposed on employers' payroll (0.5%), employees' wages (0.2%) and sole proprietors and subchapter S shareholders' distributive income (0.2%). The OFLT will provide funding for old fund claims and bond payments (see Note 12 G(3)). An actuarial study prepared by Tillinghast, a Towers Perrin company, as of June 30, 1996, was used to estimate liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. At June 30, 1996, \$248,802,467 of unpaid claims and claim adjustment expenses are presented at face value. This fund generates little interest earnings, does not discount estimated claims liabilities, and does not compute a premium deficiency (See Note 14).

(5) Changes in Claims Liabilities For the Past Two Years - As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

<u>Primary Government</u>	<u>HAIL INSURANCE</u>		<u>SUBSEQUENT INJURY</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 643	\$ 708	\$ 1,039	\$ 968
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	3,116	1,023	-	-
Increase (Decrease) in provision for insured events of prior years	4	(350)	333	165
Total incurred claims and claim adjustment expenses	3,120	673	333	165

<u>Primary Government</u>	<u>HAIL INSURANCE</u>		<u>SUBSEQUENT INJURY</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(2,498)	(380)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	<u>(647)</u>	<u>(358)</u>	<u>(350)</u>	<u>(94)</u>
Total payment	<u>(3,145)</u>	<u>(738)</u>	<u>(350)</u>	<u>(94)</u>
Total unpaid claims and claim adjust. exp. at end of the year	<u>\$ 618</u>	<u>\$ 643</u>	<u>\$1,022</u>	<u>\$ 1,039</u>
<u>Component Units</u>	<u>STATE COMPENSATION INSURANCE (NEW FUND)</u>		<u>STATE COMPENSATION INSURANCE (OLD FUND)</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
Unpaid claims and claim adjustment expenses at beginning of year	<u>\$541,374</u>	<u>\$509,020</u>	<u>\$295,749</u>	<u>\$339,485</u>
Incurring claims and claim adjustment expenses:				
Provision for insured events of the current year	102,102	173,327	-	-
Increase (Decrease) in provision for insured events of prior years	<u>(169,235)</u>	<u>(63,249)</u>	<u>(24,688)</u>	<u>(3,795)</u>
Total incurred claims and claim adjustment expenses	<u>(67,133)</u>	<u>110,078</u>	<u>(24,688)</u>	<u>(3,795)</u>
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(15,818)	(18,137)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	<u>(55,709)</u>	<u>(59,587)</u>	<u>(22,259)</u>	<u>(39,941)</u>
Total payment	<u>(71,527)</u>	<u>(77,724)</u>	<u>(22,259)</u>	<u>(39,941)</u>
Total unpaid claims and claim adjust. exp. at end of the year	<u>\$402,714</u>	<u>\$541,374</u>	<u>\$248,802</u>	<u>\$295,749</u>

(6) Risk Management Trend Information

The following table only presents risk management trend information for the State Compensation Insurance (New Fund). Only the New Fund has a three to five year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services; its funding source is the old fund liability tax. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The table below illustrates how the earned revenues (net of reinsurance) of the New Fund and its investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of the fiscal year (in thousands). Section 3 shows the fund's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 5 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 6 compares the latest reestimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be expanded and revised as data for successive policy years develops.

STATE COMPENSATION INSURANCE (NEW FUND)						
	1991	1992	1993	1994	1995	1996
1. Net earned required contribution and investment revenues	\$ 114,800	\$147,848	\$188,877	\$200,866	\$167,721	\$116,054
2. Unallocated expenses including overhead	6,048	8,232	9,325	9,090	11,303	16,114
3. Estimated incurred claims and expenses, end of policy year	137,237	183,425	186,480	199,890	173,327	102,102
4. Paid (cumulative) as of:						
End of policy year	17,618	20,244	18,347	18,693	18,137	15,818
One year later	44,335	50,576	46,343	45,947	40,473	
Two years later	64,079	68,837	62,717	61,971		
Three years later	74,901	77,950	71,666			
Four years later	81,747	83,173				
Five years later	85,924					
5. Reestimated incurred claims and expense:						
End of policy year	137,237	183,425	186,480	199,890	173,327	102,102
One year later	166,980	184,968	184,030	184,920	124,123	
Two years later	160,272	175,218	167,052	135,472		
Three years later	151,554	161,184	133,017			
Four years later	141,389	135,775				
Five years later	130,250					
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	(6,987)	(47,650)	(53,463)	(64,418)	(49,204)	

B. Other Than Public Entity Risk Pools

(1) Group Employee Comprehensive Medical and Dental Plan - This plan is fully self-insured, with the State assuming all the risk for claims incurred by employees of the State, elected officials, retirees and their dependents. There is no third party coverage. Premiums are collected through payroll deductions, deductions through the Public Employees' Retirement Division and self-payment and are recorded as revenue in the Employees' Group Benefits Internal Service Fund. At June 30, 1996, estimates for claims liabilities, which include incurred but not reported claims, are \$6,958,904 and are based on a formula provided by Martin E. Segal Company, a consulting actuarial firm. A liability is recorded in the accompanying financial statements for these estimated claims.

(2) Montana University System (MUS) Group Benefits Plan - This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System, the Montana Higher Education Student Assistance Corporation (MHESAC), and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured. United of Omaha is the claims administrator on the plan. Managed Care Montana (Blue Cross/Blue Shield of Montana) has a contract for utilization management. The utilization management program consists of hospital pre-authorization, case management and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Internal Service Fund. The claims liability is estimated to be \$3,100,000 as of June 30, 1996, based on prior year experience. A liability is recorded in the accompanying financial statements for these estimated claims.

(3) Property & Casualty Insurance Plans - This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, retail liquor stores inventory and State-administered foreclosure housing units. The State self-insures the \$150,000 deductible per occurrence for most property insurance as well as various deductible amounts for other state property. The state also self-insures against losses of equipment below \$150,000 of value, with state agencies paying the first \$1,000. Commercial property insurance protects approximately \$1.8 billion of state-owned buildings and contents. The state property insurance includes earthquake and flood protection to \$100 million annually with deductibles of \$1 million for earthquake and \$500,000 for flood per occurrence. Premiums are collected from all State agencies including Component Units and recorded as revenue in the Administration Insurance Internal Service Fund.

A biennial actuarial study, prepared by Tillinghast, a Towers Perrin Company, and issued for the accident period 7/1/88 through 6/30/96, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 1996, estimated claims liability of \$14,979,997, discounted at 14%, includes those claims incurred but not reported and is recorded in the accompanying financial statements (See Note 14).

(4) Changes in Claims Liabilities For the Past Two Years - These funds establish liabilities for both reported and incurred but not reported claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	Group Employees Medical & Dental		MUS Group Benefits		Prop. & Casualty Insurance	
	1996	1995	1996	1995	1996	1995
Amount of claims liabilities at the beginning of each fiscal year	<u>\$ 6,760</u>	<u>\$ 6,117</u>	<u>\$ 3,200</u>	<u>\$ 3,200</u>	<u>\$19,329</u>	<u>\$17,421</u>
Incurred claims:						
Provision for insured events of the current year	38,372	35,306	18,264	16,983	5,326	6,584
Increases (Decreases) in provision for insured events of prior years	<u>199</u>	<u>643</u>	<u>(100)</u>	<u>-</u>	<u>(5,418)</u>	<u>(498)</u>
Total incurred claims	<u>38,571</u>	<u>35,949</u>	<u>18,164</u>	<u>16,983</u>	<u>(92)</u>	<u>6,086</u>
Payments:						
Claims attributable to insured events of the current year	(38,372)	(35,306)	(18,264)	(16,983)	(920)	(1,146)
Claims attributable to insured events of prior years	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,337)</u>	<u>(3,032)</u>
Total Payments	<u>(38,372)</u>	<u>(35,306)</u>	<u>(18,264)</u>	<u>(16,983)</u>	<u>(4,257)</u>	<u>(4,178)</u>
Total claims liability at end of each fiscal year	<u>\$ 6,959</u>	<u>\$ 6,760</u>	<u>\$ 3,100</u>	<u>\$ 3,200</u>	<u>\$14,980</u>	<u>\$19,329</u>

10. COMMITMENTS

A. Highway Construction - At June 30, 1996, the Department of Transportation had contractual commitments of approximately \$117.4 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

B. Capital Construction - At June 30, 1996, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$16.1 million for capital projects construction. The Primary Government will fund \$14.2 million of these projects with the remaining \$1.9 million coming from higher education funds.

C. Proprietary Fund Commitments - Budgets are administratively established in the Enterprise and Internal Service Funds, excluding depreciation, compensated absences and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unreserved retained earnings in the accompanying financial statements as follows (in thousands):

PRIMARY GOVERNMENT

<u>Enterprise Funds</u>	<u>AMOUNT</u>
Liquor Stores	\$ 17
Hail Insurance	4
State Lottery	58
Uninsured Employers	3
Historical Society Publications	7
Local Government Audits	<u>6</u>
Subtotal-Enterprise Funds	<u>\$ 95</u>
<u>Internal Service Funds</u>	
Highway Equipment	\$ 1,145
ISD	401
FWP Equipment	54
Admin. Property & Supply	66
Publications & Graphics	153
Buildings & Grounds	51
Labor Central Services	5
Commerce Central Services	53
DEQ Indirect Cost Pool	98
PHHS Indirect Cost Plan	46
FWP Warehouse Inventory	9
Aircraft Operation	15
Investment Division	25
OPI Central Services	2
Records Management	5
Admin. DP Unit	<u>2</u>
Subtotal-Internal Service Funds	<u>\$ 2,130</u>
Total-Primary Government	<u>\$ 2,225</u>

COMPONENT UNITS

Housing Authority	\$ 18
State Compensation Insurance (New Fund)	685
Subtotal-Component Units	<u>\$ 703</u>
Total- Proprietary Fund Types-Reporting Entity	<u>\$ 2,928</u>

11. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected that in the normal course of operations most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases - Changes in capitalized leases/installment purchases follow (in thousands):

	Balance July 1, 1995	Additions (Deductions)	Balance June 30, 1996
Primary Government			
General Long-Term Obligations	\$ 1,248	\$ 829*	\$ 2,077
Proprietary Fund Types			
Enterprise Fund	\$ 56	\$ (46)	\$ 10
Internal Service Fund	<u>1,056</u>	<u>1,279</u>	<u>2,335</u>
Total Proprietary	<u>1,112</u>	<u>1,233</u>	<u>2,345</u>
Total-Primary Government	<u>\$ 2,360</u>	<u>\$ 2,062</u>	<u>\$ 4,422</u>
Component Units			
Pension Trust Fund	\$ 87	\$ (56)	\$ 31
Higher Education Funds	<u>2,247</u>	<u>(445)</u>	<u>1,802</u>
Total-Component Units	<u>\$ 2,334</u>	<u>\$ (501)</u>	<u>\$ 1,833</u>
Total Capitalized Leases/ Installment Purchases	<u>\$ 4,694</u>	<u>\$ 1,561</u>	<u>\$ 6,255</u>

*This amount consists of \$1,928,000 of additions as inceptions; \$83,000 of additions as adjustments; and \$1,182,000 as deductions.

Future minimum lease payments under capital leases/installment purchases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government			Component Units		
	General Long-Term Obligations	Proprietary Fund Types Enterprise	Internal Service	Pension Trust	Higher Education Funds	Totals
1997	\$ 785	\$ 11	\$ 1,102	\$ 33	\$ 788	\$ 2,719
1998	704	-	899	-	654	2,257
1999	509	-	400	-	434	1,343
2000	384	-	119	-	131	634
2001	37	-	-	-	29	66
2002+	-	-	-	-	4	4
Total minimum pmts	<u>\$ 2,419</u>	<u>\$ 11</u>	<u>\$ 2,520</u>	<u>\$ 33</u>	<u>\$ 2,040</u>	<u>\$ 7,023</u>
Less: Interest	<u>(342)</u>	<u>(1)</u>	<u>(185)</u>	<u>(2)</u>	<u>(238)</u>	<u>(768)</u>
Present value of minimum payments	<u>\$ 2,077</u>	<u>\$ 10</u>	<u>\$ 2,335</u>	<u>\$ 31</u>	<u>\$ 1,802</u>	<u>\$ 6,255</u>

B. Operating Leases - Total rental payments for operating leases in fiscal year 1996 were \$6,553,000. Future rental payments for operating leases are as follows (in thousands):

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Amount</u>
1997	\$ 5,872
1998	4,445
1999	3,560
2000	2,242
2001	1,322
2002+	<u>3,698</u>
Total future rental payments	<u>\$ 21,139</u>

12. STATE DEBT

A. General Information - The State has no constitutional limit on its power to issue obligations or incur debt other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-Term Debt - The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued. The ending cash balance in the General Fund includes \$101.2 million in tax and revenue anticipation notes (TRANS) that were repaid on July 1, 1996. Although statute requires that TRANS be repaid on or before the last day of the fiscal year in which they are issued, June 30, 1996, fell on a Sunday and the TRANS were repaid on the following business day. Had the State repaid the TRANS of \$101.2 million plus accrued interest of \$3.1 million by June 30, 1996, the ending cash balance in the General Fund would have been \$41.7 million which compares to balances in previous years.

The Board of Investments (BOI) of the State of Montana is authorized to issue Municipal Finance Consolidation Act Bonds which may not aggregate more than \$50 million. The purpose of the bonds is to provide funds for the BOI to make loans to eligible local government units. The bonds are not in any way a debt or liability of the State of Montana. The bonds are limited obligations of the BOI payable solely from repayments of principal and interest on loans made by the BOI to participating local government units, investment income under the indenture and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the Trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and have been reclassified as short-term debt. The amounts issued and outstanding at June 30, 1996, are as follows (in thousands):

<u>Series</u>	<u>Amount</u> <u>Issued</u>	<u>Balance</u> <u>June 30, 1996</u>
1991	\$ 5,000	\$ 4,875
1992	6,500	6,365
1994	7,500	7,355
1995	7,500	<u>7,465</u>
TOTAL		<u>\$26,060</u>

C. Long-Term Debt - The full faith, credit and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue bonds and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees and assets of the State and the various colleges and universities. Long-term debt (excluding bonds/notes of Enterprise Funds and Internal Service Funds discussed elsewhere in this footnote; Leases - Note 11 and Compensated Absences - Note 1) of the State at June 30, 1996, is as follows (in thousands):

<u>General Obligation Debt</u>	<u>Series</u>	<u>Amount</u> <u>Issued</u>	<u>Interest</u> <u>Range (%)</u>	<u>Principal Payments</u>		<u>Balance</u> <u>June 30, 1996</u>
				<u>Amount</u>	<u>In Year of</u> <u>Maturity (11)</u>	
Long-Range Bldg Program	1985A	\$ 8,550	7.9-8.0	\$ 100	\$150 (2001)	\$ 650
Water Development Program (1)	1988	500	9.4	20	50 (2009)	405
Water Development Program (1)	1989B	500	8.55	15	50 (2010)	425
Water Development Program (1)	1991A	750	8.0-8.2	35	90 (2007)	640
Wastewater Treatment Works	1991B	2,595	5.5-6.8	75	215 (2014)	2,390
GO Refunding	1992	31,330	4.4-6.2	3,295	390 (2010)	8,305
Energy Conservation Program (2)	1993A	1,500	3.6-4.75	135	180 (2004)	1,245
Long-Range Bldg Program	1993B	3,185	3.0-4.25	355	310 (2004)	2,500
Renewable Resource Development(1)	1993C	750	4.25-5.65	65	95 (2004)	630
Long-Range Bldg Program	1994A	22,540	4.2-6.0	760	1,725 (2014)	21,090
Wastewater Treatment Works	1994B	2,200	4.2-6.1	65	180 (2016)	2,200

General Obligation Debt	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 1996
				FY 1997	In Year of Maturity (11)	
Long-Range Bldg Program	1994C	21,955	5.125-7.0	675	1,790 (2015)	21,305
Energy Conservation Program (2)	1994D	1,600	4.9-7.0	135	200 (2005)	1,475
Renewable Resource Development (1)	1994E	750	7.7-8.5	55	105 (2005)	695
Energy Conservation Program (2)	1996A	1,650	3.5-4.4	165	195 (2006)	1,650
Renewable Resource Development (1)	1996B	1,250	5.3-6.1	125	155 (2006)	1,250
Wastewater Treatment Works	1996C	<u>2,765</u>	3.75-5.75	-	120 (2017)	<u>2,765</u>
Total General Obligation Debt		<u>\$ 104,370</u>		<u>\$ 6,075</u>		<u>\$ 69,620</u>

Special Revenue Bonds

Department of Transportation	1987	\$ 37,955	6.1-6.25	\$ 9,235	\$9,795 (1998)	\$ 19,030
Water Conservation (3)	-	100	3.463-5.0	3	3 (2016)	67
Water Development Program (4)	1987C	1,215	6.7-7.6	50	120 (2008)	945
Broadwater Power Project (4)(6)	1990A	3,800	9.5	335	505 (2002)	2,490
Broadwater Power Project (4)(5)	1991A	21,735	6.4-6.875	-	2,135 (2018)	21,735
Water Development Program (4)	1992A	11,955	4.4-6.1	770	1,250 (2006)	9,825
Water Development Program (4)	1992B	9,375	4.25-6.0	305	795 (2013)	8,535
Department of Transportation	1993	72,375	4.0-5.05	2,000	3,705 (2004)	67,375
Renewable Resource Program (4)	1996A	<u>14,985</u>	3.7-5.2	<u>850</u>	110 (2017)	<u>14,985</u>
Total Special Revenue Bonds		<u>\$173,495</u>		<u>\$13,548</u>		<u>\$144,987</u>
Middle Creek Dam Project (7)		\$ 2,990	8.125	\$ 31	1,581 (2032)	\$ 3,206
Treasure State Endowment (8)		4,134	5.85	415	779 (2001)	3,592
Natural Resource Damage Lit. Pgm. (9)		9,062	-	-	-	9,062
Developmental Center Project (10)		<u>13,100</u>	4.7-6.4	<u>290</u>	1,015 (2019)	<u>13,030</u>
Total Notes Payable		<u>\$ 29,286</u>		<u>\$ 736</u>		<u>\$ 28,890</u>
Total Special Revenue Debt						<u>\$173,877</u>

- (1) All Water Development Program Bonds and the Renewable Resource Development Bonds are secured additionally by a pledge of and payable from certain coal severance taxes. Series 1988, 1989B, 1991A and 1993C bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
- (2) Bonds issued for financing the design, construction and installation of energy conservation projects at various State buildings.
- (3) Bonds sold to Farmers Home Administration.
- (4) Issued by the Department of Natural Resources and Conservation (DNRC) and backed by a pledge of coal severance taxes and project revenues.
- (5) First payment of \$795,000 is due in 2003.
- (6) Bonds were sold to the Montana Board of Investments.
- (7) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes \$274,486 of interest owed.
- (8) Board of Investments Treasure State Endowment loan from the Coal Tax Trust Fund to the State of Montana Department of Commerce.
- (9) Board of Investments loan to the Department of Justice for the Natural Resource Damage Litigation Program. Interest accrues at .5% over the yield on the most recent issue of United States Government 30 Year Bonds. Loan repayment is secured by a pledge of amounts to be recovered in the ongoing litigation with Atlantic Richfield Company.
- (10) Montana Health Facility Authority Loan to the Department of Public Health and Human Services for the Montana Developmental Center Project.
- (11) Year of Maturity refers to fiscal year.

Board of Regents Issues Higher Education Units - Component Unit	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 1996
				FY 1997	In Year of Maturity	
University of Montana (U of M)	1993A/1995B/ 1995C	\$ 78,657	3.4-6.9	\$1,755	\$ 4,578 (2018)	\$ 75,377
Montana State University (MSU)	1986A/1987A/ 1993A	46,527	3.45-8.0	1,500	10,465 (2017)	44,107
Montana Tech of the U of M	1995C	8,667	3.8-5.75	310	202 (2018)	8,667
MSU - Billings	1994C	9,360	4.25-5.6	620	425 (2007)	8,170
MSU - Northern	1994C	2,890	4.25-6.0	90	100 (2015)	2,730
Western Montana College of the U of M (WMC)	1993A/1995B/ 1995C	1,923	3.4-6.9	65	122 (2018)	1,768
Helena College of Technology of The University of Montana (HCT)	1995B/1995C	767	4.1-6.4	30	51 (2018)	737
		<u>\$148,791</u>		<u>\$4,370</u>		\$141,556
Add: Unamortized Premium						23
Less: Unamortized Discount						(2,167)
Total Higher Education Bonded Debt						<u>\$139,412</u>

Higher Ed Nonbonded Debt

U of M - Missoula, Bookstore Note	\$ 500	Variable	\$ -	\$ 500 (2005)	\$ 500
U of M - Missoula, INTERCAP Program Note	96	Variable	19	21 (1999)	60
MSU - Bozeman, Thackeray Note	350	5.0	122	122 (1997)	122
MSU - Bozeman, Fiber Note	306	5.9	61	66 (2001)	306
MSU - Billings, SD #2 Note	876	N/A	101	95 (1999)	291
MSU - Northern, INTERCAP Program Note	1,181	Variable	149	69 (2006)	1,094
WMC - UM, INTERCAP Program Note	98	Variable	23	18 (2000)	91
WMC - UM, Mortgages Payable	70	6.5	3	6 (2009)	64
MSU - College of Technology, Great Falls, Note	100	5.38	18	22 (2001)	100
Total Higher Education Nonbonded Debt	<u>\$ 3,577</u>		<u>\$ 496</u>		<u>\$ 2,628</u>

TOTAL HIGHER EDUCATION FUNDS \$142,040

Debt service requirements (principal and interest) for long-term notes/bonds payable reported in the General Long-Term Obligations Account Group and Higher Education Funds are as follows (in thousands):

Fiscal Year Ending June 30	General Obligation Debt	Special Revenue Bonds	Higher Ed Bonded Debt	Non- Bonded Debt	Total Requirements
1997	\$ 9,638	\$ 22,568	\$ 11,226	\$ 533	\$ 43,965
1998	6,374	22,691	11,385	407	40,857
1999	6,662	21,179	11,594	406	39,841
2000	6,533	31,186	11,593	281	49,593
2001	6,509	21,283	11,593	222	39,607
2002+	69,048	121,680	174,482	889	366,099
Totals	<u>\$ 104,764</u>	<u>\$240,587</u>	<u>\$231,873</u>	<u>\$ 2,738</u>	<u>\$ 579,962</u>

A summary of changes in long-term liabilities payable reported in the General Long-Term Obligations Account Group for the fiscal year ending June 30, 1996, is as follows (in thousands):

	Balance July 1, 1995	Additions	Reductions	Balance June 30, 1996
Early Retirement Benefits	\$ 510	145	135	\$ 520
Arbitrage Rebate Tax	35	26	33	28
Net Pension Obligation	-	2,738	-	2,738
General Obligation Debt	\$ 78,000	\$ 5,665	\$ 14,045	\$ 69,620
Special Revenue Debt	184,457	16,610	27,190	173,877
Totals	<u>\$ 263,002</u>	<u>\$ 25,184</u>	<u>\$ 41,403</u>	<u>\$ 246,783</u>

D. Early Retirement Benefits Note

The 1993 Montana State Legislature granted an early retirement incentive. The incentive consisted of an additional three years of employer and employee contributions paid by the employer agency to the State of Montana Public Employees' Retirement System. The payments may be made over a period of time not to exceed nine years at an interest rate of eight percent. Debt Service requirements are as follows (in thousands):

	<u>Principal Payments</u>		<u>Balance</u>
	<u>FY 1997</u>	<u>In Year of Maturity</u>	<u>June 30, 1996</u>
Primary Government:			
General Obligation Debt	\$ 57	\$ 91	\$ 520
Component Unit:			
Higher Education Units	<u>10</u>	<u>15</u>	<u>86</u>
TOTAL	<u>\$ 67</u>	<u>\$ 106</u>	<u>\$ 606</u>

E. Early Bond Redemption

On July 24, 1995 and March 26, 1996, the State Compensation Insurance (Old Fund), a Component Unit of the State of Montana, deposited \$21,495,949 and \$13,211,766, respectively, of accumulated Old Fund Liability Tax (OFLT) collections with an escrow agent to be invested in federal securities to provide for future debt service payments. The escrow is irrevocable, but the Montana Board of Investments has retained the right to call the bonds prior to maturity if the value of the escrow is sufficient to do so. The transaction met the requirements of a legal defeasance and \$33,955,000 of Payroll Tax bonds, maturing on June 1, 2020, were removed from Old Fund's financial statements. The defeasances resulted in a reduction of debt service to maturity of \$89,046,953 and a net savings in interest cost of \$53,996,589. The Old Fund recognized an extraordinary loss on extinguishment of debt of \$1,709,000.

F. Refunded Bonds

On August 15, 1995, the Housing Authority, a Component Unit of the State of Montana, issued \$88,000,000 Single Family Program Bonds, 1995 Series B. A portion of these proceeds were used to optionally redeem, on October 16, 1995, \$40,660,000 of the Single Family Program Bonds 1979 Series A, at a premium of 101%. The Housing Authority deferred \$1,045,769 of costs related to the refunding of the 1979 Series A Bonds. These deferred costs are required to be amortized over the shorter of the life of the refunded bonds or the life of the refunding bonds. The 1995 Series B refunding resulted in an economic gain of \$2,553,455 and a difference in cash flows of (\$55,299,838).

On December 14, 1995, the University of Montana, a Component Unit of the State of Montana, issued \$8,666,780 of Facilities Improvement Revenue and Refunding Bonds, 1995 Series C, for MT Tech, with interest rates ranging from 3.8 to 5.75%. MT Tech deposited \$5,583,647 of proceeds with an escrow agent to be invested in federal securities to provide for future debt service payments. The transaction met the requirements of a legal defeasance and \$5,300,000 of 1986 Series A refunding revenue bonds, maturing on November 15, 2009, were removed from MT Tech's financial statements. The defeasance resulted in a reduction of debt service to maturity of \$382,842 and an economic gain of \$525,503.

On February 1, 1996, the Montana Department of Natural Resources and Conservation (DNRC) issued \$14,985,000 of 1996 Refunding Series A, Coal Severance Tax, Renewable Resource Program Bonds. DNRC deposited \$13,368,149 of proceeds plus \$1,030,631 of certain other available funds with an escrow agent to be invested in federal securities to provide for future debt service payments. The transaction met the requirements of an in-substance defeasance and \$1,375,000 of 1988 Series A, \$4,915,000 of 1989 Series A, and \$7,215,000 of 1990 Refunding Series B Coal Severance Tax, Renewable Resource Program Bonds, maturing on December 1, 2008, December 1, 2009, and December 1, 2006, and callable December 1, 1997, December 1, 1998, and December 1, 1998, respectively, were removed from the financial statements. The defeasance resulted in a reduction of debt service to maturity of \$1,136,785 and an economic gain of \$809,961.

In prior years, the State of Montana and the Board of Regents of Higher Education have issued general obligation and revenue refunding bonds, the proceeds of which were used to defease certain bond issues already outstanding. The proceeds of the refunding issues were placed in escrow accounts and invested in U.S. Treasury Obligations that, together with interest earned thereon, will be sufficient for future payment of principal and interest on the refunded issues. Accordingly, the debt is considered defeased for financial reporting purposes and the liability for the defeased bonds is not included in the financial statements. At June 30, 1996, the defeased bonds outstanding are as follows (in thousands):

General Obligation	\$ 14,160
Special Revenue	129,915
Higher Education Revenue	<u>25,395</u>
Total	<u>\$169,470</u>

G. Enterprise Funds

(1) Economic Development & Municipal Finance Consolidation Act Bonds (EDB) - This program is directed by the nine-member Board of Investments which is attached to the Department of Commerce for administrative purposes. This program assists Montana's small businesses and local governments in obtaining long-term, fixed rate financing through private Montana lending institutions. Outstanding obligations are as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 1996
				FY 1997	In Year of Maturity	
Industrial Development Revenue Bonds (Pooled Loan) (a)	1984A	\$ 70	7.0-10.75	\$ 5	\$ 15 (2000)	\$ 30
Industrial Development Revenue Bonds (Pooled Loan) (a)	1985A,G,H	790	6.75-10.1	35	95 (2007)	600
Municipal Finance Consolidation Act Bonds (Irrigation Program) (b)	1988	4,976	6.6-7.75	495	130 (2014)	4,497
Economic Development Bonds (Conservation Reserve Enhancement Program) (c)	1991A-B	7,380	10.0-11.2	1,225	285 (2000)	2,825
Municipal Finance Consolidation Act Bonds (d)	1991	<u>6,234</u>	4.75-6.5	<u>467</u>	294 (2005)	<u>3,326</u>
TOTAL BONDS PAYABLE		\$19,450		\$ 2,227		\$11,278
Conservation Reserve Enhancement Program (CRP Notes) (c)		<u>3,255</u>	7.5-9.92	<u>1,107</u>	274 (2001)	<u>3,255</u>
TOTAL BONDS/NOTES PAYABLE		<u>\$22,705</u>		<u>\$ 3,334</u>		<u>\$14,533</u>

- (a) These bonds, which may not aggregate more than \$75 million, are limited obligations of the Board of Investments payable solely from and secured by certain revenues and assets pledged pursuant to an Indenture of Trust. The bonds do not constitute a debt, liability or legal obligation of the State of Montana. However, if the balance in the "Capital Reserve Account A" falls below the indenture requirement, the Governor is required to request the Legislature to appropriate funds to restore the balance. The Legislature may, but is not legally obligated to, appropriate funds to correct any such deficiency. Principal payments (accrued interest to be added) are due each March 15. Series 1985J (\$665,000) and Series 1985B (\$775,000) were recalled on March 15 and December 15, 1988, respectively, without a gain or loss on extinguishment. Series 1985L (\$325,000) was recalled in March 1992, without a gain or loss on extinguishment. Series 1984B (\$510,000), Series 1984C (\$255,000), Series 1984D (\$970,000) and Series 1984E (\$420,000) were retired March 15, 1995, through the exercise of optional redemption provisions resulting from loan prepayments. Loss from early extinguishment totaled \$40,877. On March 15, 1996, Series 1984F (\$225,000), Series 1984G (\$1,200,000), Series 1985C (\$190,000), Series 1985D (\$285,000), Series 1985E (\$790,000), Series 1985F (\$345,000), Series 1985I (\$90,000) and Series 1985K (\$670,000) were retired through the exercise of optional redemption provisions resulting from loan prepayments. Loss from early extinguishment totaled \$1,608 for Series 1984 and \$9,313 for Series 1985.
- (b) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds and the interest thereon are payable solely from the collection of a special tax or assessment levied against real property in the Irrigation District. The Irrigation Bonds are not obligations of the State of Montana. However, the Irrigation Bonds are limited obligations of the Board of Investments due to an irrevocable pledge to lend money for deposit by the Trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein on any payment date. The indenture does not permit the issuance of additional bonds.
- (c) These bonds and notes were issued for the purpose of providing funds for the Board of Investments, State of Montana, to make loans to participating farmers and ranchers under its Conservation Reserve Enhancement Program. The Series 1991 Bonds are not in any way a debt or liability of the State of Montana, and neither the full faith and credit, nor the taxing power of the State of Montana is pledged to the payment of the principal of or interest on the Series 1991 Bonds. However, the 1991 Bonds are limited obligations of the Board of Investments. The Bond Anticipation Notes which matured on November 15, 1992, were reissued to correspond with maturities per the underlying loans. On November 15, 1994, eleven BAN's were reissued to comply with statutory requirements limiting the maturity of notes to five years from issuance date.
- (d) These bonds were issued for the purpose of providing funds for the Board of Investments, State of Montana, to purchase the general obligation refunding bonds of participating Montana School Districts. The School District Refunding Bonds and the interest thereon are payable from real property taxes levied within the school district. These bonds are limited obligations of the Board of Investments, and are not a debt or liability of the State of Montana, and neither the faith and credit nor the taxing power of the state is pledged to the payment of principal of or interest on the bonds.

Debt service requirements (principal & interest) for EDB are as follows (in thousands):

<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002+</u>	<u>Totals</u>
\$ 4,416	\$3,640	\$2,638	\$2,036	\$1,567	\$5,434	<u>\$19,731</u>

(2) Board of Housing (BOH) (Housing Authority) - Component Unit - Revenue Bonds - The Montana Board of Housing is authorized to have an aggregate of \$975 million of housing mortgage bonds outstanding. The bonds are payable from mortgage loan repayments and investment earnings. All bonds issued to date are secured by federally insured or guaranteed mortgages. Statutory provisions exist wherein the Governor shall include in the executive budget submitted to the legislature the sum required to fund possible future deficiencies in required reserves; however, the legislature is not legally required to appropriate funding for such deficiencies. None of the outstanding bonds were issued under these provisions. BOH Revenue Bonds (net) outstanding at June 30, 1996, are as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 1996
				FY 1997	In Year of Maturity	
Single Family I	1977A	\$ 21,470	4.5-8.0	\$ 850	\$ 1,850 (2009)	\$ 8,880
	1977B	35,060	4.15-8.0	1,675	3,160 (2009)	15,020
	1978A	13,600	6.0-6.5	445	1,115 (2010)	6,080
	1987A	20,000	5.3-8.625	490	1,240 (2018)	7,330
	1987B1-B2	20,000	6.25-9.0	175	610 (2019)	5,900
	1988A1-A2	<u>19,999</u>	5.4-8.5	<u>305</u>	2,115 (2019)	<u>9,108</u>
Subtotal		<u>\$130,129</u>		<u>\$ 3,940</u>		<u>\$ 52,318</u>
Single Family II	1983C	\$114,998	5.75-10.7	\$ -	\$ 3,035 (2010)	\$ 19,722
	1984A	75,002	7.0-10.375	-	5,800 (2010)	6,077
	1985A	40,000	5.5-9.75	-	5,170 (2016)	11,924
	1985B	74,997	5.7-9.75	-	485 (2011)	4,345
	1992RA	22,520	5.65-6.5	-	10 (2033)	22,520
	1994A	25,725	3.1-6.1	1,445	585 (2025)	21,475
	1994B	40,815	3.8-6.9	2,375	595 (2025)	33,235
	1994C	20,000	4.5-6.8	380	575 (2027)	19,190
	1995A	33,580	4.75-6.55	-	1,080 (2027)	32,820
	1995B	<u>88,000</u>	4.2-6.4	-	1,480 (2036)	<u>88,000</u>
Subtotal		<u>\$535,637</u>		<u>\$ 4,200</u>		<u>\$259,308</u>
Single Family III	1988B1-B2	\$ 25,000	6.2-8.9	\$ 240	\$ 355 (2021)	\$ 10,755
Single Family IV	1989A1-A2	25,000	7.0-9.2	180	490 (2021)	11,090
Single Family V	1990A1-A2	25,000	6.2-8.525	280	730 (2022)	12,675
Single Family VI	1990B1-B2	25,000	6.3-8.5	275	805 (2022)	14,170
Single Family VII	1990C1-C2	25,000	6.55-8.95	265	835 (2022)	13,685
Single Family VIII	1991A1-A2	25,000	5.2-8.275	335	920 (2023)	16,650
Single Family IX	1991B1-B2	25,000	5.5-8.4	305	890 (2023)	16,720
Single Family X	1992A1-A2	25,000	4.45-7.85	310	830 (2024)	18,350
Multifamily	1978A	4,865	6.125	65	645 (2020)	4,245
	1992	<u>9,725</u>	2.95-6.55	<u>165</u>	50 (2024)	<u>9,305</u>
Subtotal		<u>\$ 14,590</u>		<u>\$ 230</u>		<u>\$ 13,550</u>
TOTAL		<u>\$880,356</u>		<u>\$10,560</u>		<u>\$439,271</u>
Add: Deferred amount on refunding						673
Add: Unamortized bond premiums						52
Less: Unamortized bond discounts						<u>(17)</u>
TOTAL BOH BONDS PAYABLE (net)						<u>\$439,979</u>

Debt service requirements (principal & interest) for all BOH programs are as follows (in thousands):

<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002+</u>	<u>Total</u>
\$37,088	\$37,330	\$37,804	\$38,126	\$36,698	\$796,816	<u>\$983,862</u>

(3) Payroll Tax Bonds (Workers' Compensation Program) - State Compensation Insurance - Old - Component Unit - The Board of Investments of the State of Montana issued \$140,640,000 of bonds for the purpose of funding the State's liability and cost in administering and paying claims for injuries resulting from accidents, prior to July 1, 1990, that are subject to the Montana Workers' Compensation Act and the Occupational Disease Act of Montana. The bonds are limited obligations of the State of Montana payable solely from and secured by certain payroll tax revenues collected by the Department of Revenue of the State of Montana. Included in the issued bonds is \$32,500,000 of Series 1993 variable rate demand bonds issued October 27, 1993, and maturing June 1, 2020. The bonds are subject to purchase on demand of the holder at a price equal to principal plus accrued interest on thirty days notice and delivery to the remarketing agent. The Montana Board of Investments (BOI) has entered into a Standby Liquidity Agreement to purchase any tendered bonds which are unable to be remarketed by the remarketing agent. The BOI is entitled to the same rights as any other bondholder, including the right to receive payments of principal and interest. As of June 30, 1996, \$32,500,000 of the demand bonds are outstanding. Old Fund Payroll Tax Bonds (net) outstanding as of June 30, 1996, are as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 1996
				FY 1997	In Year of Maturity	
Payroll Tax Bonds	1991	\$108,140	4.9-6.875	\$2,405	\$4,495 (2017)	\$97,885
Less: Unamortized discount						<u>(1,328)</u>
TOTAL BONDS PAYABLE (net)						<u>\$ 96,557</u>

Debt service requirements (principal & interest) are as follows (in thousands):

<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002+</u>	<u>Totals</u>
\$ 8,983	\$ 8,984	\$ 8,983	\$ 8,986	\$ 8,984	\$139,593	<u>\$184,513</u>

H. No-Commitment Debt - Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

(1) Montana Board of Investments (BOI) - The BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. The industrial revenue bonds issued by BOI do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 1996, outstanding industrial revenue bonds are as follows (in thousands):

<u>Project</u>	<u>Date of Issue</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Montana Cenex	August 1985	\$ 3,925	\$ 3,925
Bozeman Holiday Inn	October 1987	4,485	3,685
Colstrip	October 1989	60,800	60,800
Yellowstone Energy (BGI)	July 1993	<u>118,345</u>	<u>118,345</u>
Total		<u>\$187,555</u>	<u>\$186,755</u>

(2) Beginning Farm Loan Program - The Montana Department of Agriculture is authorized to request issuance of bonds by the Montana Board of Investments to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 1996, is as follows:

Jorgensen Project - issued \$81,600; outstanding \$37,432.

(3) Montana Health Facility Authority (MHFA) - Component Unit - The MHFA is authorized to issue bonds and notes to finance projects for qualifying health institutions. The obligations issued by MHFA do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 1996, the MHFA had issued bonds and notes as follows (in thousands):

<u>Project</u>	<u>Date of Issue</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
West Mont Home Health Services	June 1985	\$ 440	\$ 196
MHFA 1985 Pooled Loan Projects	December 1985	66,900	37,200
Community Provider Pooled Loans	October 1988	1,461	980
St. Peters Community Hospital	March 1989	9,365	7,600
Kalispell Regional Hospital	June 1990	14,475	12,470
Community Provider Pooled Loan	July 1990	5,858	4,925
Deaconess Medical Center (Series A)	February 1991	18,000	18,000
Deaconess Medical Center (Series B)	February 1991	18,000	18,000
Sisters of Providence	May 1991	56,535	48,255
St. Peters Community Hospital	August 1991	7,000	5,970
Deaconess Medical Center	September 1991	32,650	29,450
Deaconess Medical Center	September 1991	7,000	4,035
Community Provider Pooled Loans	September 1991	3,944	3,409
Hospital Pooled Loans	August 1992	4,645	3,585
Richland Opportunities	January 1993	200	182
Bozeman Deaconess Foundation	June 1993	14,900	12,700
Holy Rosary Hospital	September 1993	18,275	17,850
Sisters of Charity	January 1994	50,915	47,410
Deaconess-Billings Clinic	January 1994	58,870	58,870
Community Memorial Hospital	October 1994	570	465
St. John's Retirement Home	October 1994	2,000	2,000
North Valley Hospital (Series C)	October 1994	695	570
North Valley Hospital (Series D)	October 1994	1,310	1,220
Northern MT	October 1995	5,645	5,645
Northern MT	November 1995	6,090	6,090
Livingston Hospital	May 1996	<u>540</u>	<u>443</u>
Total		<u>\$406,283</u>	<u>\$347,520</u>

13. INTERFUND TRANSACTIONS

During the course of normal operations, the State has numerous transactions between funds to finance operations, provide services, construct assets, service debt, etc. Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. To the extent that certain transactions between funds are not paid or received as of June 30, 1996, interfund receivables/payables (Due From/To Other Funds) are recorded. The schedule below presents all interfund balances outstanding at June 30, 1996, (in thousands) and interfund activity for the fiscal year then ended:

Within Primary Government and Component Units	Interfund Loans/Advances		Due From Other Funds	Due To Other Funds	Operating Transfers		Residual Equity Transfers	
	Receivable	Payable			In	Out	In	Out
General	\$ 21,508	\$ -	\$ 49,787	\$ 13,847	\$ 159,562	\$ 7,712	\$ 7,424	\$ -
Special Revenue								
State	33,793	3,920	7,141	21,508	21,291	32,398	-	10,331
Federal	140	45,277	4,740	11,283	98	3,950	-	327
Debt Service								
Coal Tax Bonds	-	-	-	8	14,095	38	1,244	-
Long-Range Building Program	-	-	51	1,504	9,153	53,081	-	-
Water Development	-	-	1	314	174	653	1,120	-
Highway Revenue Bonds	-	-	-	-	15,258	-	-	-
Transportation Bldg. Complex	-	-	-	-	-	-	-	28
Renewable Resource	-	-	-	-	-	-	-	40
Energy Bonds	-	-	34	225	9	201	2	-
Capital Projects								
Long-Range Building Program	-	5,100	274	5,264	191	669	-	5,200
Fed/Priv Construction Grants	-	-	-	74	-	-	-	-
Capital Land Grant	-	-	28	-	604	600	-	-
Enterprise								
Economic Dev. Bonds	-	-	-	11	-	-	-	-
Liquor Stores	-	-	86	7,166	-	18,167	-	-
Hail Insurance	-	-	-	14	-	28	-	-
State Lottery	-	-	-	1,779	-	7,803	-	-
Prison Ranch	-	-	38	67	-	-	-	-
Prison Industries	-	-	101	57	-	-	-	-
Uninsured Employers	-	-	24	29	-	-	-	-
Subsequent Injury	-	-	3	1	-	-	-	-
Montana Career Info. Sys.	-	-	5	5	-	-	-	-
FWP Snowgroomer Rental	-	-	-	-	-	-	-	2
Sec. of State Business Services	-	-	5	106	-	-	-	-
Historical Soc. Publications	-	-	1	20	53	-	-	-
Surplus Property	-	-	1	22	-	-	-	-
W. Yellowstone Airport	-	-	17	3	17	-	-	-
Local Govt. Audits	-	35	-	14	-	-	-	-
Internal Service								
Highway Equipment	-	-	286	259	-	-	-	-
Employees' Grp. Ben.	-	-	3	29	-	-	-	-
ISD	-	-	1,376	461	97	-	-	-
MSU Group Insurance	-	-	18	6	-	-	-	-
Admin. Insurance	-	-	-	58	88	-	-	-
FWP Equipment	-	-	365	6	208	-	-	-
Motor Pool	-	-	151	127	-	-	1,293*	-
Admin. Prop. & Supply	-	-	184	26	-	-	-	-
Publications & Graphics	-	-	224	85	-	-	-	-
Buildings & Grounds	-	-	131	46	53	-	-	-
Labor Central Services	-	-	40	42	-	-	-	-
Commerce Central Services	-	-	113	106	-	-	-	-
DEQ Indirect Cost Pool	-	-	296	204	-	-	-	277
PHHS Indirect Cost Pool	-	-	401	1	530	-	277*	-
FWP Warehouse Inventory	-	-	9	-	-	-	-	-
Mail & Messenger	-	100	123	44	-	-	-	-
Payroll Processing	-	-	-	46	-	-	107*	-
Warrant Processing	-	-	53	53	-	-	-	-
Investment Division	-	-	35	85	-	-	-	-
Aircraft Operation	-	-	40	20	338	-	-	-
Justice Legal	-	-	66	121	-	-	-	-
OPI Central Services	-	-	60	43	350	-	-	-
Personnel Training	-	-	11	10	-	-	-	-
Records Management	-	-	37	9	-	-	-	-
FWP Office Supply	-	-	-	1	-	-	-	-
Debt Collections	-	-	36	15	-	-	-	-
Admin. Legal	-	-	-	6	-	-	-	-

Within Primary Government and Component Units	Interfund Loans/Advances		Due From Other Funds	Due To Other Funds	Operating Transfers		Residual Equity Transfers	
	Receivable	Payable			In	Out	In	Out
Local Govt Administration	-	-	8	7	-	-	-	-
Natural Gas Procurement	-	-	-	1	-	-	-	-
Admin. DP Unit	-	-	1	3	-	-	-	-
<u>Expendable Trusts</u>								
Unemployment Insurance	-	20	11	-	-	-	8	-
Intergovernmental Trust	-	-	299	6,075	-	-	4,706	-
Rural Development	-	-	-	3	-	-	-	-
Escheated Property	-	-	-	2	63	1,172	-	-
Historical Society General	-	-	-	1	-	7	-	-
<u>Nonexpendable Trusts</u>								
Coal Tax Trust	-	37	19	6,984	-	43,962	24	-
Land Grants	-	-	1,013	14,337	1,109	43,891	-	-
Resource Indemnity	-	-	289	1,359	-	7,960	-	-
Parks Trust	-	-	-	186	-	1,033	-	-
Cultural Trust	-	-	-	266	-	588	-	-
Real Property	-	-	79	85	-	453	-	-
Noxious Weed Management	-	-	1	68	-	423	-	-
Thomas Teakle Trust	-	-	-	-	-	4	-	-
<u>Pension Trusts</u>								
PERS	-	-	210	78	-	-	-	-
Municipal Police	-	-	2,497	31	-	-	-	-
Firefighters Unified	-	-	4,142	26	-	-	-	-
Sheriffs	-	-	-	22	-	-	-	-
Highway Patrol	-	-	52	14	-	-	-	-
Judges	-	-	68	3	-	-	-	-
Game Wardens	-	-	-	5	-	-	-	-
Volunteer Firefighters	-	-	-	22	-	-	-	-
<u>Agency</u>								
Investment Pool	-	1,012	-	-	-	-	-	-
Performance Deposits	60	-	4	582	-	-	-	-
Central Payroll	-	-	22,541	92	-	-	-	-
Custodial Accounts	-	-	15	309	-	-	-	-
Unissued Warrants	-	-	81	1,895	-	-	-	-
Child Support Collections	-	-	98	1,079	-	-	-	-
Intergovernmental	-	-	20	20	-	-	-	-
Unclaimed Property	-	-	3	-	-	-	-	-
Uncleared Collections	-	-	14	727	-	-	-	-
Debt Collection	-	-	1	242	-	-	-	-
COMPONENT UNITS								
<u>Enterprise Funds</u>								
Housing Authority	-	-	-	2	-	-	-	-
State Comp. Insurance - New	-	-	1,770	8	-	-	-	-
State Comp. Insurance - Old	-	-	37	1,745	-	-	-	-
<u>Pension Trusts</u>								
Teachers Retirement System	-	-	522	10	-	-	-	-
<u>Higher Education</u>								
Current Funds								
General Operating	700	-	5,408	4,036	982	843	-	-
Designated	2,065	25	4,286	2,255	3,130	4,549	2	-
Auxiliary	14	16	425	1,324	704	9,335	-	-
Restricted	-	2,514	207	4,587	235	66	-	2
Fiduciary								
Student Loans	-	-	14	274	2	15	-	-
Endowments	-	-	-	38	14	527	-	-
Agency	-	-	4,052	1,492	-	-	-	-
Plant								
Unexpended	16	265	292	234	7,418	8,303	3	-
Renewal & Replacement	172	432	664	362	7,925	1,304	-	3
Retirement of Indebtedness	285	-	1,045	462	12,019	6,035	-	-
Totals	<u>\$ 58,753</u>	<u>\$ 58,753</u>	<u>\$116,583</u>	<u>\$116,583</u>	<u>\$255,770</u>	<u>\$255,770</u>	<u>\$ 16,210</u>	<u>\$ 16,210</u>

*These Residual Equity Transfers are reflected in Contributed Capital on the Balance Sheet.

Between Primary Government and Component Units	Due From Comp. Units	Due To Primary Govt	Due To Comp. Units	Due From Primary Govt	Transfer To Comp. Unit	Transfer From Primary Govt
<u>General</u>	\$ 404	\$ -	\$ 425	\$ -	\$95,880	-
<u>Special Revenue</u>						
State	546	-	533	-	15,092	-
Federal	26	-	528	-	-	-
<u>Debt Service</u>						
Long-Range Building Program	5	-	25	-	-	-
<u>Enterprise</u>						
Economic Dev. Bonds	6	-	-	-	-	-
Prison Industries	122	-	-	-	-	-
Surplus Property	-	-	12	-	-	-
<u>Internal Service</u>						
Highway Equipment	4	-	-	-	-	-
ISD	303	-	18	-	-	-
MUS Group Insurance	441	-	-	-	-	-
Motor Pool	1	-	-	-	-	-
Admin. Supply	35	-	1	-	-	-
Publications & Graphics	44	-	-	-	-	-
Building & Grounds	1	-	-	-	-	-
Commerce Central Services	6	-	-	-	-	-
Warrant Processing	18	-	-	-	-	-
Investment Division	10	-	-	-	-	-
Records Management	2	-	-	-	-	-
<u>Nonexpendable Trusts</u>						
Land Grants	-	-	660	-	1,815	-
<u>Pension Trusts</u>						
PERS	297	-	-	-	-	-
<u>Agency</u>						
Land Grant Interest	-	-	1	-	-	-
Performance Deposits	-	-	9	-	-	-
Employees Defer. Comp.	78	-	-	-	-	-
Central Payroll	985	-	-	-	-	-
Child Support Collections	6	-	-	-	-	-
Uncleared Collections	6	-	-	-	-	-
Debt Collections	-	-	18	-	-	-
COMPONENT UNITS						
<u>Enterprise Funds</u>						
Housing Authority	-	36	-	1	-	-
Health Facilities Authority	-	11	-	-	-	-
State Comp. Ins. - New	-	913	-	36	-	-
State Comp. Ins. - Old	-	2	-	287	-	-
<u>Pension Trusts</u>						
Teachers Retirement System	-	27	-	14	-	-
<u>Higher Education</u>						
Current Funds						
General Operating	-	1,144	-	15	-	110,959
Designated	-	257	-	131	-	-
Auxiliary	-	22	-	91	-	215
Restricted	-	45	-	1,049	-	-
Fiduciary						
Student Loans	-	-	-	5	-	-
Agency	-	745	-	20	-	-
Plant						
Unexpended	-	139	-	262	-	746
Renewal and Replacement	-	5	-	1	-	13
Retirement of Debt	-	-	-	318	-	854
Totals	<u>\$ 3,346</u>	<u>\$ 3,346</u>	<u>\$ 2,230</u>	<u>\$ 2,230</u>	<u>\$112,787</u>	<u>\$112,787</u>

14. FUND DEFICITS

The following funds have a deficit fund balance/retained earnings found on the operating statements for June 30, 1996, (in thousands):

Primary Government

Enterprise Fund

West Yellowstone Airport	\$ (703)
Department of Agriculture	(176)

Internal Service Fund

Administration Insurance	(8,003)
Payroll Processing	(46)
Justice Legal	(86)
Administration - Legal	(4)
Local Government Admin	(31)
Total Fund Deficits - Primary Government	<u>\$ (9,049)</u>

Component Units

Proprietary Fund Type

State Comp. Ins. (Old Fund)	\$ (369,307)
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Higher Education Funds

General Operating Subfund	(18,487)
Total Fund Deficits - Component Units	<u>\$ (387,794)</u>

The deficit retained earnings in the Administration Insurance Fund and the State Compensation Insurance-Old Fund are due to recording the expense for estimated claims including claims incurred but not reported. Refer to Note 9 for further discussion of these funds. The deficit fund balance in the General Operating Subfund is due to the expense associated with the recording of compensated absences.

15. RESERVED FUND BALANCES FOR TRUSTS

The Special Revenue trust reserved fund balance is attributed to the Fish, Wildlife and Parks Mitigation Trust Account within the State Special Revenue Fund.

The Coal Tax Trust reserved fund balance in the Nonexpendable Trust Fund consists of the following (in thousands): Permanent Coal Tax Trust \$527,966, Treasure State Endowment Fund \$42,263 and the School Bond Contingency Fund \$2,178. All other Nonexpendable Trust Fund balances, \$477,299, are Reserved for Trust Principal.

16. SEGMENT INFORMATION

Selected financial information concerning all enterprise operations for the fiscal year ended June 30, 1996, is as follows (in thousands):

	<u>Economic Development Bonds</u>	<u>Liquor Stores</u>	<u>Hail Insurance</u>	<u>State Lottery</u>	<u>Other Enterprise*</u>	<u>Total Enterprise</u>
Operating Revenues:						
Charges for Services	\$ 62	\$ 42,239	\$ -	\$ 31,763	\$ 9,270	\$ 83,334
Investment Earnings	846	-	270	243	356	1,715
Financing Income	2,415	-	-	-	-	2,415
Contrib./Premiums	-	-	2,181	-	16	2,197
Grants/Contracts/Donations	-	-	-	-	7	7
Taxes	-	11,876	-	-	-	11,876
Other Revenues	-	48	1	1	3,768	3,818
Operating Expenses:						
Depreciation	4	77	1	90	522	694
Amortization	-	-	-	-	9	9
Other	<u>3,055</u>	<u>36,881</u>	<u>3,219</u>	<u>24,126</u>	<u>10,718</u>	<u>77,999</u>
Operating Income (Loss)	<u>264</u>	<u>17,205</u>	<u>(768)</u>	<u>7,791</u>	<u>2,168</u>	<u>26,660</u>
Nonoperating Revenues	-	(49)	-	(35)	(395)	(479)
(Expenses)	-	(18,167)	(28)	(7,803)	70	(25,928)
Oper. Trans. In (Out)	-	(18,167)	(28)	(7,803)	70	(25,928)
Net Income (Loss)	<u>\$ 264</u>	<u>\$ (1,011)</u>	<u>\$ (796)</u>	<u>\$ (47)</u>	<u>\$ 1,843</u>	<u>\$ 253</u>
Current Assets	\$ 5,963	\$ 18,636	\$ 7,192	\$ 3,507	\$ 13,073	\$ 48,371
Current Liabilities	(986)	(17,612)	(1,733)	(2,224)	(743)	(23,298)
Net Working Capital	<u>\$ 4,977</u>	<u>\$ 1,024</u>	<u>\$ 5,459</u>	<u>\$ 1,283</u>	<u>\$ 12,330</u>	<u>\$ 25,073</u>

	Economic Development Bonds	Liquor Stores	Hail Insurance	State Lottery	Other Enterprise*	Total Enterprise
Total Assets	\$ 44,009	\$ 19,743	\$ 7,201	\$ 5,492	\$ 21,690	\$ 98,135
Total Liabilities	41,852	17,677	2,367	5,253	2,184	69,333
Fund Equity	<u>\$ 2,157</u>	<u>\$ 2,066</u>	<u>\$ 4,834</u>	<u>\$ 239</u>	<u>\$ 19,506</u>	<u>\$ 28,802</u>
Long-Term Obligations	\$ 40,866	\$ 65	\$ 634	\$ 3,029	\$ 1,441	\$ 46,035
Cur. Yr. Capital Cont.	\$ -	\$ -	\$ -	\$ -	\$ 1,102	\$ 1,102
Acquisition of Fixed Assets	\$ 8	\$ 91	\$ 1	\$ 91	\$ 503	\$ 694
Disposal of Fixed Assets	\$ 3	\$ 579	\$ -	\$ 440	\$ 1,040	\$ 2,062

1. The Economic Development Bond Program, administered by the Board of Investments, assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.
2. The Liquor Division of the Department of Revenue administers the State liquor operations (Liquor Stores). This fund accounts for liquor licensing activities and the sale and distribution of alcoholic beverages.
3. The Hail Insurance Fund provides benefit payments to producers for crop acreage insured and accounts for premium assessments paid (See Note 9).
4. The State Lottery accounts for the operations of Montana's lottery which began in June 1987. Included in Other Assets is \$1,641,000 which is not a current asset.

* Other Enterprise is composed of the following funds (listed by administering agency):

Department of Agriculture
Department of Agriculture

Fish, Wildlife and Parks
FWP Snowgroomer Rental

Secretary of State
Business Services

Department of Commerce
Local Government Audits

Montana Historical Society
Historical Society Publications

Department of Corrections
Prison Ranch Industries
Women's Prison Industries
Swan River Vocational Training

Department of Transportation
West Yellowstone Airport

Department of Labor and Industry
Montana Career Infor. System
Subsequent Injury
Uninsured Employers

Department of Administration
Surplus Property

17. CONTRIBUTED CAPITAL

During fiscal year 1996, contributed capital changed by the following amounts (in thousands):

	<u>PRIMARY GOVERNMENT</u>		<u>COMPONENT UNITS</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Proprietary Fund Type</u>
Beginning Balance - July 1, 1995	\$ 3,490	\$ 5,343	\$ 11,584
Additions:			
Contrib. Capital Transfers-in	1,617	4,054	15
Deletions:			
Contrib. Capital Transfers-out	<u>(515)</u>	<u>(2,819)</u>	<u>-</u>
Ending Balance - June 30, 1996	<u>\$ 4,592</u>	<u>\$ 6,578</u>	<u>\$ 11,599</u>

18. NONEXPENDABLE TRUST FUNDS' INVESTMENT INCOME

Investments are recorded in Nonexpendable Trust Funds using the full accrual basis of accounting. However, certain investment earnings attributable to these trusts are transferred elsewhere, as summarized below:

Nonexpendable Trust Fund

Reporting of Investment Earnings

Coal Tax Trust

Permanent Trust Accounting Entities - Investment Earnings are distributed to the General Fund, Treasure State Endowment Accounting Entity - A specified amount may be transferred monthly to the State Special Revenue Fund to cover administrative costs, grants, and loans to local governments for infrastructure projects. In 1996, transfers of \$1,234,985 were made.

Land Grants	Ninety-four percent of investment earnings are transferred to the General Fund for the Office of Public Instruction to distribute to public schools; five percent is distributed to Higher Education Units (Current and Plant Funds); and one percent to the Department of Corrections (General Fund and State Special Revenue Fund).
Resource Indemnity	Resource Indemnity Tax investment earnings are distributed to the State Special Revenue Fund as follows: At the beginning of each biennium, \$175,000 to the Environmental Contingency Account; \$50,000 to the Oil and Gas Damage Mitigation Account; \$2,000,000 to the Renewable Resource Loan and Grant Account; \$3,000,000 to the Reclamation and Development Grant Account; \$500,000 to the Water Storage Account; and every fiscal year \$240,000 to the Renewable Resource Loan and Grant Account; and the remaining investment earnings are distributed thirty-six percent to the Renewable Resource Loan and Grant Account; eighteen percent to the Hazardous Waste/Comprehensive Environmental Response, Compensation, and Liability Act Account; forty percent to the Reclamation and Development Grant Account; and six percent to the Environmental Quality Protection Account. The beginning of a biennium is the even numbered fiscal year; therefore, the fixed amounts noted above were distributed.
Parks Trust	Investment earnings are distributed to the State Special Revenue Fund for the maintenance of parks by the Department of Fish, Wildlife and Parks.
Cultural Trust	Investment earnings are distributed to the State Special Revenue Fund for cultural and aesthetic projects administered by the Montana Arts Council.
Real Property	Investment earnings are transferred to the State Special Revenue Fund for use by the Department of Fish, Wildlife and Parks to operate, maintain and develop its real property.
Noxious Weed Management	Investment earnings are transferred to the State Special Revenue Fund for noxious weed management projects.
Moore Sipple Connector	Investment earnings are distributed quarterly to the Central Montana Rail Company for use in its operation.
Thomas Teakle	Investment earnings are transferred to the State Special Revenue Fund for the Montana Historical Society's library acquisitions.

19. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation. The Board of Regents and MHESAC have four common board members. Approximately 63.4% of the Regents' outstanding loan volume (\$285,330,000) is held by MHESAC. Lewis & Clark County owns the building which houses the staff of the Board of Regents and the Office of the Commissioner of Higher Education (OCHE). Upon satisfaction of the financing obligations, MHESAC has the option to purchase the building. OCHE pays MHESAC for its share of various costs such as personnel costs for employees of MHESAC who perform services that are of direct benefit to the State; equipment leases; computer maintenance costs; utilities and other shared operating expenses. The total amount of these expenses for fiscal year 1996 amounted to \$295,887. MHESAC employees are allowed to participate in the University System group insurance plan and MHESAC also reimburses OCHE for services such as telephones, postage and computer supplies. During fiscal year 1996 MHESAC paid OCHE a total of \$446,178.

There is a foundation affiliated with each university and college unit which solicits contributions and manages those funds for the benefit of that unit. Each foundation is a separate legal entity; each unit exercises significant influence over its affiliated foundation. The units generally provide the foundations with office space, some staff and related office expenses and an annually contracted fee. The units paid their foundations approximately \$636,727 in fiscal year 1996. In return the universities received from their foundations approximately \$11,301,587 during fiscal year 1996 for scholarships and academic/institutional support. In addition to support from their affiliated foundation, the University of Montana-Missoula and Montana State University-Bozeman received a total of \$669,558 from their related athletic associations/booster organizations.

20. CONTINGENCIES

A. Litigation - The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

The Crow Tribe filed suit in 1978 in federal district court seeking a declaration that Montana's coal severance and gross proceeds taxes are invalid as applied to the production of coal on the Crow Reservation and to the production of coal owned by the Tribe located in an off-reservation area, known as the "Crow ceded area" or "ceded strip", which lies roughly

between the northern boundary of the reservation and the Yellowstone River. The amount of coal reserves falling within these categories has not been precisely determined. The taxes were alleged to be invalid under a variety of theories, of which the most prominent were that the state taxes conflict with federal policy by preventing the marketing of Crow coal and infringe on tribal sovereignty by depriving the Tribe of revenue needed to provide governmental services to the Crow people. In addition to a declaration that the taxes were invalid, the Tribe sought restitution for an amount equal to the severance and gross proceeds taxes paid by Westmoreland Resources, Inc. (Westmoreland), the only company currently mining coal claimed by the Tribe, together with the interest which accrued to the Coal Severance Tax Trust Fund on the amount of taxes paid.

In January 1983, the court ordered Westmoreland's future severance tax payments placed in escrow pending the outcome of the litigation. The State has received no severance tax payments from Westmoreland with respect to the coal mined on the ceded strip since the entry of this order. Prior to 1983, Westmoreland's annual severance tax payments varied from a low of \$5.407 million in 1976 to a high of \$7.078 million in 1979.

In June 1987, the Ninth Circuit Court of Appeals ruled that Montana is preempted from applying its severance and gross proceeds taxes on coal within the ceded strip held in trust for the Crow Tribe and on coal mined on the reservation. In August 1987, the State docketed an appeal of the decision to the United States Supreme Court, and in January 1988, that Court summarily affirmed the Court of Appeals' judgment.

As a result of the Supreme Court's affirmance, two principal issues remained in the case, one of which has been resolved. The first issue involved the appropriate disposition of the escrowed moneys, to which the State disclaimed any interest after the Supreme Court's decision. The district court concluded in September 1988 that these moneys should be paid to the United States in trust for the Tribe. The escrowed funds totaling \$30.1 million were distributed in May 1989 to the United States.

The second issue involved tax monies paid by Westmoreland to the State but not escrowed. Their amount, exclusive of interest, is approximately \$46.8 million in severance taxes and \$11.4 million in gross proceeds taxes. The Tribe and the United States, which had intervened on the Tribe's behalf in 1983, claimed those taxes under a restitution theory. They additionally sought prejudgment interest on the tax amounts which, as of March 31, 1994, was estimated at \$214.1 million for the severance tax and \$40.7 million on the gross proceeds tax. Trial on their claim was held in April and May 1994, and in November 1994, the district court ruled in the State's favor. In August 1996, however, a three-judge panel of the Ninth Circuit Court of Appeals reversed the district court's ruling and ordered restitution of the coal severance taxes. It also remanded the matter for determination of the claim to prejudgment interest. The State petitioned for rehearing with a suggestion for rehearing en banc and, in October 1996 the Court of Appeals' panel modified its August opinion to refer to one issue raised in the State's petition for rehearing, but the petition remains pending. If unsuccessful, the State will seek review by the United States Supreme Court. The State believes there are substantial grounds for challenging the Court of Appeals' panel decision, but an unfavorable outcome is reasonably possible.

The Tribe and the United States additionally sought leave in April 1993 to amend their complaints for the purpose of alleging damages in connection with loss of possible production under a coal lease with Shell Oil Company. They estimated those damages alternatively at \$327.1 million and \$250.4 million as of March 31, 1994. The district court denied the requested amendment in July 1993 and again in February 1994. The court, however, addressed that claim in its November 1994 decision and rejected it. The Tribe and the United States raised that aspect of the court's decision in the appeal before the Ninth Circuit discussed in the previous paragraph. In its August 1996 opinion, the Court of Appeals affirmed the District Court's denial of this claim. The Tribe petitioned the Court of Appeals' panel for rehearing on this issue, but its petition was denied in November 1996. It is unknown whether the Tribe or the United States will seek review of this aspect of the Court of Appeals' decision before the United States Supreme Court. The possibility of an unfavorable outcome concerning the Shell transaction-related claim appears remote.

B. Federal Contingencies:

Federal Financial Assistance - The State receives federal financial assistance for specified purposes which are subject to review and audit in accordance with the Single Audit Act of 1984. Any disallowances resulting from these audits would become the liability of the State. There are no disallowances reported as of June 30, 1996.

USDA Commodities - In fiscal year 1996, the State distributed \$6,796,848 in commodities. The value at June 30, 1996, of commodities stored in the State's warehouses is \$1,643,994 for which the State is liable in the event of loss.

Social Security - The Social Security Administration (SSA) has assessed the State for the alleged failure to withhold and forward social security contributions for part-time employees for the years 1984 through 1986. In January 1996, a final administrative decision was made against the State and local governments establishing a preliminary assessment of \$2.16 million plus simple interest of 6 per cent per annum. Of the principal amount, \$720,000 plus interest of approximately \$1.0 million is estimated to be the initial liability of the State's central payroll; the balance of the amount owing is the initial responsibility of various political subdivisions. The portion of that amount that the State might have to pay because of the current nonexistence of some of those political subdivisions, should not be substantial, approximately \$5,000.

C. Miscellaneous Contingencies:

Commitment fees - The Board of Investments (BOI) and the Montana Health Facility Authority (MHFA) have entered into a capital reserve account agreement for certain bond issues. In accordance with the agreement, the BOI irrevocably committed to lend the MHFA funds sufficient to ensure timely payments of principal and interest on the bonds. If necessary, the loans will be made by the BOI from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 1996, is \$26,515,000.

The BOI has issued its own bonds for the INTERCAP Loans that have also committed funds from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 1996, is \$33,883,215.

Gain Contingencies - Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 1996, the following assessments (by fund type) were outstanding (in thousands):

<u>Taxes</u>	<u>General</u>	<u>Special Revenue</u>	<u>Debit Service</u>	<u>Nonexpendable Trust</u>
Corporation	\$ 6,536	\$ -	\$ 422	\$ -
Coal Severance	9,303	3,233	4,167	18,023
Oil & Gas	3,523	-	-	-
Resource Indemnity	-	356	-	302
Totals	<u>\$ 19,362</u>	<u>\$ 3,589</u>	<u>\$ 4,589</u>	<u>\$ 18,325</u>

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed 100% to the General Fund.

21. SUBSEQUENT EVENTS

On July 24, 1996, the State issued \$30,075,000 of General Obligation Bonds, Series 1996D (Long-Range Building Program) for building construction.

On July 24, 1996, the Department of Natural Resources and Conservation issued \$1,000,000 of General Obligation Bonds, Series 1996E (Renewable Resource Loan Program).

On August 1, 1996, the Montana Health Facility Authority (MHFA) issued a \$2,313,318 revenue note which was privately placed with GE Capital Public Finance, Inc. This obligation does not constitute a debt, liability, obligation or pledge of faith and credit of the State.

On August 1, 1996 and August 15, 1996, the MHFA issued \$20,730,000 (Series 1996) and \$17,835,000, respectively, of Health Care Facilities Revenue Bonds. These obligations do not constitute a debt, liability, obligation or pledge of faith and credit of the State.

On August 1, 1996 the MHFA issued \$5,085,000 in bonds for its third Master Loan Program. The obligations issued by MHFA do not constitute a debt, liability, obligation or pledge of faith and credit of the State. These bonds are covered by a capital reserve account agreement between MHFA and the Board of Investments (BOI). See Note 20 for additional information on this agreement and other commitments.

On August 15, 1996, the Board of Regents of the Montana University System issued \$43,540,000 of Facilities Improvement and Refunding Revenue Bonds, Series 1996D, for Montana State University. On October 15, 1996, it also issued \$25,541,127 of Facilities Improvement Revenue Bonds, Series 1996D, for the University of Montana.

On September 19, 1996, the Board of Housing (Housing Authority) issued \$65,000,000 of Single Family Program Bonds, Series 1996A.

On September 24, 1996, the Board of Directors of the State Compensation Insurance Fund, a Component Unit of the State of Montana, declared a dividend payable to the Old Fund not to exceed \$109 million from excess surplus funds. State statute requires that any dividends declared must be used to pay off the Old Fund liability. An amount of the dividend not to exceed \$12 million was designated as a return of the New Fund's contributed capital. The State Fund Board of Directors instructed the State of Montana Board of Investments to use the allocated excess surplus funds to retire the outstanding Old Fund bond debt. The timing of such retirement is at the discretion of the Board of Investments (BOI).

On October 3, 1996, the State Compensation Insurance Fund deposited with an escrow agent \$80,061,243 of the \$109 million dividend plus \$11,322,812 of debt service reserve funds and \$8,000,000 of excess OFLT collections not required to pay claims to be invested in federal securities to provide for future debt service payments on the Series 1991 Payroll Tax Bonds. The escrow is irrevocable, but BOI retained the right to call the bonds prior to maturity if the value of the escrow is sufficient to do so. The transaction met the requirements of a legal defeasance and the State Fund defeased \$97,885,000 of the 6.875 percent term bonds due on June 1, 2020.

On October 23, 1996, the State issued \$59,500,000 of Tax and Revenue Anticipation Notes, Series 1996, due June 27, 1997. The proceeds of the Notes provide cash to support expenditures from the general fund, pending the receipt of taxes and revenues, for the fiscal year ending June 30, 1997.